

# **Republic of Korea**

## **Development of National Employment Policies through Two Economic Crises**

**Lessons from Its Experiences**



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**Lessons from Its Experiences**

INTERNATIONAL LABOUR OFFICE • GENEVA

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## FOREWORD

This study on employment policies of the Republic of Korea during the two economic crises, namely the Asian financial crisis of 1997 and the global economic crisis of 2008, has been prepared with the support of the Employment Policy Department, ILO, Geneva. This study is timely because the global economy has faced a downturn in employment and an aggravation of social unrest under the prolonged recession entailing the need for a renewed commitment to place jobs at the centre of economic and social policies for both developed and developing economies. The study adds a great deal of substance to the illustration offered on the Korean experience in the World Development Report 2013 on the global theme of ‘jobs’.<sup>1</sup>

This analysis of employment policies in response to the global recession in the Republic of Korea provides an opportunity to share its experience with countries in similar economic and social situations. The purpose of the study is to (i) document employment policies that the Republic of Korea implemented to cope with two economic crises (1997 and 2008); (ii) extract policy lessons which could be useful to other countries; and (iii) review the Republic of Korea’s experience from the standpoint of ILO Convention on Employment Policy and Promotion (C.122) which requires each member state to pursue an active employment policy as a major goal.

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Director  
Employment Policy Department  
ILO

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<sup>1</sup> World Bank (2013) World Development Report: Jobs, Washington DC, p.90



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# CONTENTS

<b>FOREWORD .....</b>	<b>v</b>
<b>ACKNOWLEDGEMENT .....</b>	<b>vii</b>
<b>CONTENTS .....</b>	<b>ix</b>
<b>ABBREVIATIONS .....</b>	<b>xiii</b>
<b>EXECUTIVE SUMMARY .....</b>	<b>xv</b>
<b>1. INTRODUCTION .....</b>	<b>1</b>
<b>2. TWO ECONOMIC CRISES AND LABOUR MARKET EVOLUTION.....</b>	<b>3</b>
2.1 Comparison of the two economic crises in magnitude and transmission mechanisms in Korea.....	3
2.2 Labour market impact of the economic crises in Korea.....	7
2.3 Economic crises and aggravation of pre-existing labour market problems in Korea.....	12
<b>3. EMPLOYMENT POLICY AND INSTITUTIONAL REFORM TOWARDS MORE ACTIVE MEASURE.....</b>	<b>19</b>
3.1 Evolution of employment policies and intensified employment services.....	19
3.2 Employment policy response to youth .....	27
3.3 Employment policy response to non-regular workers.....	33

**4. NATIONAL GOVERNANCE TO STRENGTHEN THE COORDINATION OF  
EMPLOYMENT POLICIES .....37**

4.1 Increase in budget allocation for jobs .....37

4.2 National governance to strengthen the coordination of employment  
policies.....38

4.3 Policies to facilitate job creation .....46

**5. JOB CREATION: A BROADER APPROACH.....51**

5.1 Tax reform aiming for job creation .....51

5.2 Towards an employment-oriented welfare system.....53

5.3 Development of new job-growth engines.....54

**6. CONCLUDING REMARKS.....59**

**APPENDIX A .....60**

**APPENDIX B .....61**

**REFERENCES.....63**

## List of Figures

Figure 2.1 Real GDP growth (percentage change) .....	4
Figure 2.2 The two crisis impacts on Korea's GDP growth by main components (percentage change) .....	5
Figure 2.3 Changes in foreign exchange reserves and currency rates in Korea, 1995-2011..	6
Figure 2.4 Crisis effects on business activities.....	7
Figure 2.5 Employment adjustment to GDP growth .....	9
Figure 2.6 Quarterly Economically active participation rate and unemployment rate during two crisis periods, seasonally adjusted (per cent).....	10
Figure 2.7 Change of real wage growth (percentage change from one year earlier).....	11
Figure 2.8 Income inequality in Korea (measured in Gini coefficient).....	12
Figure 2.9 Changes in employment by different worker groups during the two crisis periods (percentage changes) .....	14
Figure 2.10 Trends in youth unemployment and employment rates (per cent) .....	16
Figure 2.11 Change in the size and share of non-regular workers, August 2002-2011 (million persons) .....	17
Figure 4.1 Structure of the National Employment Strategy Meeting Task Force .....	42
Figure 4.2 The employment impact assessment process .....	47
Figure 5.1 EITC structure according to number of children and earned income.....	53

## List of Tables

Table 3.1 Intensified employment services.....	23
Table 3.2 Comparisons of the previous jobseeker training system and the Vocational Skills Development Account System .....	25
Table 4.1 Trends in the increase in jobs budget .....	37
Table 4.2 Analysis of Employment Impact .....	48
Table 5.1 Legislation in Korea to promote the third sector .....	56

## List of Boxes

Box 2.1 The 2009 social dialogue and the job-sharing efforts in Korea .....	8
Box 2.2 Classification of “youth” in Korea .....	15
Box 3.1 Open Employment Society .....	30
Box 4.1 Change in the name of Korea’s employment related ministry and strengthening of functions .....	38
Box 4.2 National Employment Strategy 2020 for the Harmony of Growth, Employment and Welfare.....	40

# ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
CGE	Computable General Equilibrium model
EITC	Earned Income Tax Credit
ETPL	Eligible Training Programme List
FGI	Focus Group Interview
FKTU	Federation of Korean Trade Unions
GDP	Gross domestic product
HR	Human resource
ILO	International Labour Organization
IMF	International Monetary Fund
KCTU	Korean Confederation of Trade Unions
KEF	Korea Employers Federation
KOICA	Korea International Cooperation Agency
KOTRA	Korea Trade- Investment Promotion Agency
KRW	South Korean Won
LaMAS	Labour Market Analysis System
LED	Light-emitting diode
MOEL	Ministry of Employment and Labor
MOL	Ministry of Labor
MOU	Memorandum of understanding
OECD	Organisation for Economic Co-operation and Development
PSM	Propensity Score Matching model
QWL	Quality of Working Life
SMEs	Small and medium sized enterprises
UNDP	United Nations Development Programme
USD	United States Dollar
WEO	World Economic Outlook
YES	Youth Employment Success



## EXECUTIVE SUMMARY

Korea achieved rapid economic growth and close-to-full employment for almost two decades from the late 1960s. Upon the arrival of the era of globalization, growth started to slow down in the 1990s. In this situation, the 1997 Asian financial crisis and the recent global economic crisis hit the Korean economy hard like other countries. Nevertheless, Korea succeeded in reducing the negative impact of the two financial crises on its labour market and became one of the fastest recovery countries in the world.

As two economic crises originated from two different sources and also differed in scope and in the way they impact on the Korean labour market, the Korean government developed different approaches and strategies to stabilize its labour market and create jobs. After the Asian financial crisis, it established a labour market system and infrastructure that could facilitate active labour market policies and expanded social protection. On the other hand, during the global financial crisis, the Korean government made job creation the top priority of all national policies, developed a mechanism for aligning economic and social policies administered by different ministries with employment policies, and set up a system for the evaluation and assessment of policy implementation. Labour, management and government engaged in social dialogue in the presence of two economic crises and agreed on cooperating on various measures.

This report presents how the two different economic crises impacted on the Korean economy and employment situation and which policies and institutions has been developed to overcome the crises. It focuses on providing a historical narrative on the employment policies and measures for coping with the global economic crisis and national governance to strengthen the coordination of employment policies. *However, it does not try to analyse how and how much each policy or measure contributes to improving the employment situation as most of them have been introduced recently.*

An important point to bear in mind is that Korea, like other countries around the world, faces the perennial challenge of striking the right balance between promoting employment opportunities and protecting workers against economic volatility. This issue is reflected in the case of ‘non-regular’ workers.<sup>2</sup>

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<sup>2</sup> Specific details on the characteristics of ‘non-regular’ workers can be found in Appendix B of this study.

## Two economic crises and labour market evolution

In 1997, countries in East Asia including Korea suffered from foreign currency shortage but the impact of the crisis was limited to the East Asian region. The economic crisis which started from U.S. in 2008, on the other hand, had spread throughout the whole world.

The patterns of the real GDP growth during two economic crises in Korea are quite similar while the magnitude was different. Korea's growth rate dropped to -5.7 per cent in 1998 then soared to 10.7 per cent in 1999 but during the global economic crises it slipped only to 0.3 per cent in 2009 and recovered to 6.2 per cent in the following year.

The employment growth responded to the economic growth, showing distinctive trends during the two economic crisis periods. During the 1997 Asian financial crisis, the GDP growth rate hit bottom during the second quarter of 1998, dropping to -7.3 per cent, and subsequently recovered to show positive growth in the first quarter of 1999 at a rate of 6.4 per cent. Unlike the 1997 crisis, at the time of the 2008 global economic crisis, fluctuations in the employment growth rate were relatively moderate. Such a difference in the effects of the two crisis events can be attributed to the different nature of the two crises and the corresponding response measures of the Korean government. While a massive restructuring of the Korean labour market was implemented during the 1997 crisis, the government initiated "job-sharing" efforts to avoid large falls in employment in the wake of the 2008 financial crisis.

With the two economic crises impacting the country, the deeply embedded labour market problems which had existed in Korea before 1997, such as the issue of youth unemployment and non-regular workers, were aggravated and exposed. Through two economic crises, young people experienced not only a drop in the number of jobs, but also slow recovery in terms of regaining employment. Meanwhile, labour market dualism in Korea began in the 1990s as companies started using non-regular workers in the organization with an aim of securing labour flexibility in the face of rising global competition. The number of non-regular workers in Korea, such as temporary workers, continued to rise after the 1997 Asian financial crisis. Also, with the onset of the global economic crisis of 2008, while jobs of regular workers were maintained, the process of job destruction most affected non-regular employment.

## Employment policy and institutional reform towards more active measure

While the Employment Insurance System was adopted in 1995, it was expanded for supporting active labour market policies during the process of overcoming the 1997 Asian financial crisis as follows.

- Beneficiaries of employment insurance were expanded from businesses with at least five employees to businesses with at least one employee.



- The minimum unemployment allowance was also increased from 50 per cent to 70 per cent of minimum wages.
- A variety of financial support systems were adopted to promote companies' maintenance of employees and new recruitments.
- A programme to provide out-placement service was also implemented.
- "Work-net" to provide speedy information to job seekers and employers were set up.

In order to implement active measures, administrative infrastructures were also expanded. "Job Centers", public employment service offices were established under the Ministry of Labor in each region nationwide. Large numbers of staffs were also hired for Job Centers, fulfilling tasks such as providing unemployed with vocational counselling, job placement, vocational training services and allowance payment.

With the onset of the global economic crisis, the government set up more active and intensified labour market policies such as (i) more systematic and intensified jobseeker support programmes such as "Employment Success Package Programme", (ii) vocational training systems reflected the demands of trainees and companies such as "Vocational Skills Development Account System", and (iii) upgrades in "Work-Net" information and increase in user convenience.

As the global economic crisis aggravated the youth employment problem, the Korean government implemented the two "Making of Tomorrow for Youths" projects in 2010 and 2011, through which more job opportunities were given to young people through the expansion of the private sector's job creation ability.

The first "Making of Tomorrow for Youths" project presented two policies – expansion of youth employment in the public sector, and assistance in transition from school to workplace. Rather than attempting direct job creation as was done in the first project, the second project is based on expanding education and career paths so that young women and men can grow into talented human resources customized to the needs of the labour market. Major programmes include providing venues for learning about the workplace; improvement in employment service infrastructure to alleviate job mismatching; increased decent job opportunities for graduates of regional schools; increased start-ups for youth entrepreneurs; and large scale recruitments by venture companies.

With severe focus on educational background and an increase in university graduation rates resulting in greater incidence of highly educated persons working at unsatisfactory jobs and job mismatching has become a serious issue. In order to build a society focused more on competency than on educational background, the government has implemented "Open Employment Society" policy. It consists of various measures such as increased job opportunities for high school graduates in the public and private sectors, improved employment conditions, and intra-organization movement based more on performance and ability rather than seniority.

As the size of temporary workers increased and as there has not been much improvement in job quality after the Asian financial crisis due to reduction of regular

workers in the private sector, the Korean government has implemented various measures to address this problem including legislations for protection, vocational training programmes and conversion to unlimited contract-based position.

## National governance for the coordination of employment policies

The employment policies implemented by the Korean government to cope with the global economic crisis since 2008 were focused on the establishment and implementation of job-focused economic and social policy, and employment policy coordination mechanisms and policy monitoring and evaluation systems although the government has also strengthened and intensified employment services as mentioned earlier.

With a sluggish job market since the Asian financial crisis, there has been heightened awareness in Korea that an approach dependent on ministry-specific employment programmes alone is limited in solving the problem. It has become more necessary to establish an employment strategy at the national level, which both covers the scope of each of the ministries and the private sector and can be implemented in a consistent manner. In the process of overcoming the global economic crisis, the Korean government changed in the name of employment related ministry from Ministry of Labor (MOL) to Ministry of Employment and Labor (MOEL) and strengthening of its functions entitling MOEL to coordinate employment policies.

The government also established high level meetings to strengthen the coordination of employment policies. A National Employment Strategy Meeting in which all the related ministers and other heads of the central governmental authorities participate has been established under the chairmanship of the President in Korea in order to deploy a coherent government-wide national employment strategy. An Employment Policy Coordination Meeting presided over by MOEL has also been set up with the purpose of systematic monitoring and management of the policies.

Through this national governance system, the government has formulated “2020 National Employment Strategy” in 2010 and named the 2012 budget as the “Jobs Budget,” with job creation placed as the top priority in budget appropriation.

In addition, a Public-Private Job Creation Consultative Committee has been established jointly between the private sector and government in 2011, so that government may build a cooperation system with the private sector that plays a leading role in job creation. For customized measures in response to on-site needs, MOEL began providing direct support at business sites by setting up On-site job+ Team, an on-site group to support job creation, in 2011. Immediately under MOEL, “On-site job+ Team” has been formed for onsite coordination, which means that government delegates can visit workplaces in person to assess the difficulties that companies and jobseekers face in regard to employment issues.

The Korean government has also developed the monitoring and evaluation system which led economic and social policies and labour market policies to create more jobs

after the Asian financial crisis.

First of all, the Korean government has established the employment impact assessment system which seeks policy alternatives for job creation by conducting quantitative and qualitative analyses not only on employment policies that have a direct impact on jobs, but on important government policies and public projects in economy, industry and welfare to ultimately support the creation of more jobs.

Another evaluation system in Korea is the “Local Job Creation Strategy Notice System” which has been implemented by MOEL in 2010. Through the “Local Job Creation Strategy Notice System,” the local government has been encouraged to establish its own job creation targets catered to the characteristics and situation of the region. Employment policies that can meet these objectives are presented to community residents, and the central government conducts a review and assessment in order to provide support.

The Korean government also conducts a review and assessment of each employment insurance-related programme each year in order to make labour market policies more efficient. MOEL used the results for improvement of the programmes. The Ministry of Strategy and Finance is also notified of the results, which are reflected in the assessment of the performance of the Employment Insurance Fund. The assessment of fund management performance is reflected by having those programmes that receive a rating of “less than satisfactory” subject to budget cuts the following year.

## **Economic and social policy orientation to job creation**

The Korean government has made various efforts to create jobs, not only through direct measures such as employment policy, but also through taxation, and various social and industrial policies.

Tax reforms have been initiated in Korea in order to actively encourage job creation by private companies. First, the Korean government has set up the “tax credit system for investments in job creation,” which provides tax benefits based on newly created employment, with the aim of encouraging investments for job creation. Secondly, for SMEs that increase employment, the government has implemented a two-year tax credit system for social insurance premiums. Thirdly, income tax for youth that are employed by SMEs is totally exempted for up to three years. Fourthly, Earned Income Tax Credit system has been revised to encourage work and family formation among low income households.

The Korean government also reformed the welfare system to enhance incentives to attract low income earners to the labour market. In order to overcome several problems in the public assistance programmes which kept low income households from getting out of the welfare system, the Korean government has been strengthening the linkage between Job Centers and local government offices, expanding the programmes for supporting self-reliance of public assistance recipients, and adopting a “special allowance system.”

Korea has decided to focus on the development of the green industries such as clean energy (solar/wind energy) and recycling of waste resources and subsequent conversion into energy as a driver of future economic growth and means of job creation since 2009. MOEL has implemented the Green Job Creation Programme, expanding vocational development capabilities for the nurturing of qualified workers in green industries, and providing assistance for improvement in work environments and industry structure.

Another attempt at job creation by the government was made through the development of the 'third sector' such as social enterprises and cooperatives. The Korean government viewed them as a model that could create profit and encourage self-sustenance – a solution for the problem of low job growth and increase in demand for social services. Subsequently, Korea enacted the "Social Enterprise Promotion Act" to facilitate the growth of social enterprise and the "Basic Act on Cooperatives" in 2012 for the purpose of encouraging the growth of non-profit social cooperatives.

The Korean government adopted working hour reduction policy for the creation of decent jobs and increase in quality of life. In 2010 the tripartite committee agreed to work together to cut the total of annual working hours to 1,800 hours from currently more than 2,100 hours by 2020. Based on the tripartite consultation, the government established a "Comprehensive Plan to Reduce Extended Working Hours," which was put into action from 2011.

## The ILO's global employment strategy and the Korean experiences

The global economic crisis which started in 2008 has swept across the world, leaving a vast majority of countries with serious economic downturn and employment recession. Some European economies are struggling to chase three targets at once - adopting belt-tightening measures to cope with mounting sovereign debt that accumulated during the crisis while achieving an economic recovery and overcoming the employment crisis.

Addressing the issue of job shortages has become the top priority for both developed and developing economies. The Global Employment Trends published by the ILO on 24 January 2012 says that the global unemployment rate, which currently stands at about 6 per cent, will not go down between now and 2016. Also notably, in 2011, 74.8 million youth or 12.7 per cent were unemployed, which remains a full percentage point higher than the pre-crisis level of 2007.

The ILO has advocated global strategies for overcoming the jobs crisis. As a result, the Declaration on Social Justice for a Fair Globalisation (2008), the Global Jobs Pact (2009) and the Resolution of 99th International Labour Conference (2010) were adopted. The focus of these global agreements is, in essence, on establishing employment-friendly macroeconomic systems so as to put full and productive employment and decent work at the heart of the national policies. The recent Korean policy experience to cope with the global economic crisis can be viewed as a country-specific illustration that is in accord with the core demand of those global agreements.

# INTRODUCTION

# 1

The global economic crisis which started in 2008 has swept across the world, leaving a vast majority of countries with serious economic downturn and employment recession. Some European economies are struggling to cope with multiple challenges - adopting belt-tightening measures to cope with mounting sovereign debt that accumulated during the crisis while achieving an economic recovery and overcoming the employment crisis.

Addressing the issue of job shortages has become the top priority for both developed and developing economies. The Global Employment Trends published by the ILO on 24 January 2012 says that the global unemployment rate, which currently stands at about 6 per cent, will not go down between now and 2016. Also notably, in 2011, 74.8 million youth or 12.7 per cent were unemployed, which remains a full percentage point higher than the pre-crisis level of 2007. Discussion has been on within the ILO to set global strategies for overcoming the jobs crisis. As a result, the Declaration on Social Justice for a Fair Globalisation (2008), the Global Jobs Pact (2009) and the Resolution of 99th International Labour Conference (2010) were adopted. The focus of these global agreements is, in essence, on establishing employment-friendly macroeconomic systems so as “to place full and productive employment and decent work at the center of economic and social policies.”

Korea achieved rapid economic growth and close-to-full employment for almost two decades from late 1960s. However, growth started to slow down in the 1990s, with problems such as labour market mismatch surfacing. The 1997 Asian financial crisis and the recent global economic crisis caused dire employment situation. Nevertheless, Korea succeeded in minimizing negative impact of the global financial crisis on its labour market and became one of the fastest recovery countries in the world.

The two crises had similar consequences - economic downturn and decline in employment opportunities. However, with further scrutiny, distinctive characteristics such as their cause, nature and impact on the labour market can be found. Accordingly, the Korean government responded differently to each of the crises. In 1997, Korea received a bailout package from the IMF to cope with the liquidity crisis stemming from the foreign currency crunch. The shockwave was enormous. The economy started to backslide and mass layoffs were prevalent, generating great economic and social suffering. However, the crisis was confined to only a handful of Asian countries and the main culprit was short foreign currency liquidity, thus having limited ripple effects on

the real economy. That is why the crisis sent out a huge shockwave across the economy and the labour market at the beginning but with little aftershock later on, enabling the country to make a fast rebound. By contrast, the global financial crisis that started from the US spread to the rest of the world in 2008, and Korea was no exception. Already suffering from low growth and low employment, Korea was hit hard by the external shocks, falling deeper into recession and unemployment. However, Korea could lift itself from the crisis earlier because lessons learned in the previous crisis helped the country respond to the shocks. The boom in the emerging markets like China was a boon to Korea which lost its traditional export markets like the US and Europe during the crisis.

Korea developed employment policies in the midst of two different crises, taking into account the nature and gravity of the shocks. After the Asian financial crisis, it established a labour market system and infrastructure that could facilitate active labour market policies and expanded social safety nets. What is particularly noteworthy is that the Korean government during the global financial crisis made job creation the top priority of all national policies, developed a mechanism for aligning economic and social policies administered by different ministries with employment policies, and set up a system for the evaluation and assessment of policy implementation.

This report focuses on introducing the employment policies that Korea developed in the course of overcoming two economic crises without evaluating their impact on the labour market as most of them are new policies whose performances are too early to be assessed.

# TWO ECONOMIC CRISES AND LABOUR MARKET EVOLUTION

# 2

The purpose of this section is to analyse Korea's macro-economic and labour market situation as a result of the two major economic crises. It conducts an analysis of the pattern of economic decline and recovery in both cases, the general transformation and recovery of the labour markets, and how the existing deep-rooted issues of the labour market were altered in the midst of the economic crisis. This will help identify the nature of the two economic crises that impacted Korea and the repercussions on its labour market.

## 2.1 Comparison of the two economic crises in magnitude and transmission mechanisms in Korea

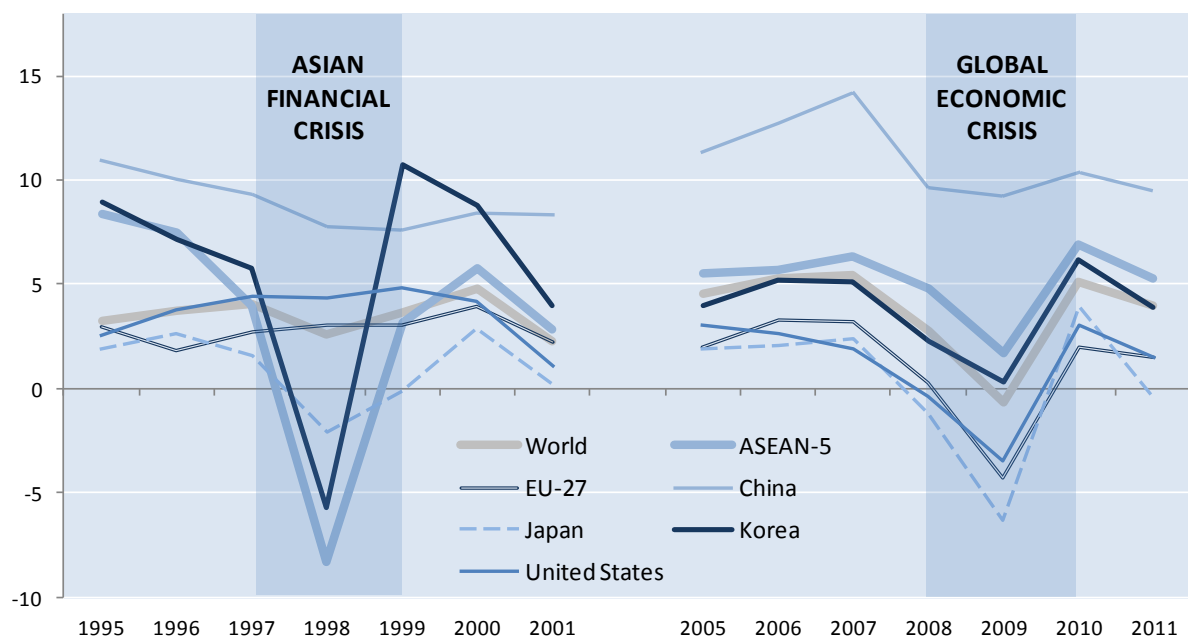
The 1997 Asian financial crisis and the 2008 global economic crisis originated from two different sources and also differed in scope and in the way they spread to the Korean economy. The Asian financial crisis was regional; it occurred as countries in East Asia such as Korea, Indonesia, Malaysia and Thailand had to request a bailout from the International Monetary Fund (IMF) due to foreign currency shortage. It did not impact other major countries such as the United States and European countries outside of the East Asian region. However, the economic crisis in 2008 was global in nature, starting in the United States and spreading throughout the whole world, including Europe and Asia. An export-dependent economy such as Korea's responds sensitively to changing factors in overseas markets, and thus the impact on the Korean economy was extensive.

With the Asian financial crisis of 1997, the high economic growth rates Korea and many East Asian countries had maintained dropped considerably. However, during the same period, the economic growth rates of the United States and Europe continued to climb, displaying irrelevance to the East Asian crisis. Korea's economic growth rate dropped from 5.8 per cent in 1997 to -5.7 per cent in 1998, but in the following year, the economy recorded a growth rate of 10.7 per cent, and maintained the upward trend with an 8.8 per cent growth rate in 2000. When comparing with other countries in the East Asian region such as Japan and the major member countries of the Association of Southeast Asian Nations (ASEAN) that similarly suffered from the financial crisis, Korea's recovery was relatively fast (Figure 2.1).



The rapid economic recovery of Korea can also be witnessed during the 2008 global economic crisis. During this period, the growth rates of major economies of the world, such as European countries, Japan and the United States (with the exception of China), dropped drastically. The economic growth rates of Japan, the United States and EU countries began to fall from 2008, recording negative growth rates in 2009 and recovering somewhat in 2010. Korea's economic growth rate dropped from 5.1 per cent in 2007, to 2.3 per cent in 2008, and 0.3 per cent in 2009. On a quarterly basis, Korea recorded a negative growth rate of -3.3 per cent in the fourth quarter of 2008, which continued into the second quarter of 2009. In three quarters, it recovered to 0.3 per cent in 2009, and did not show a negative average annual growth rate unlike other countries. The country's growth rate reached 6.2 per cent in 2010, which was higher than that of the United States and European countries.

**Figure 2.1 Real GDP growth (percentage change)**



*Note:* ASEAN-5 refers to Indonesia, Malaysia, Philippines, Thailand, and Vietnam.

*Source:* IMF World Economic Outlook (WEO) database, September 2011; Eurostat database.

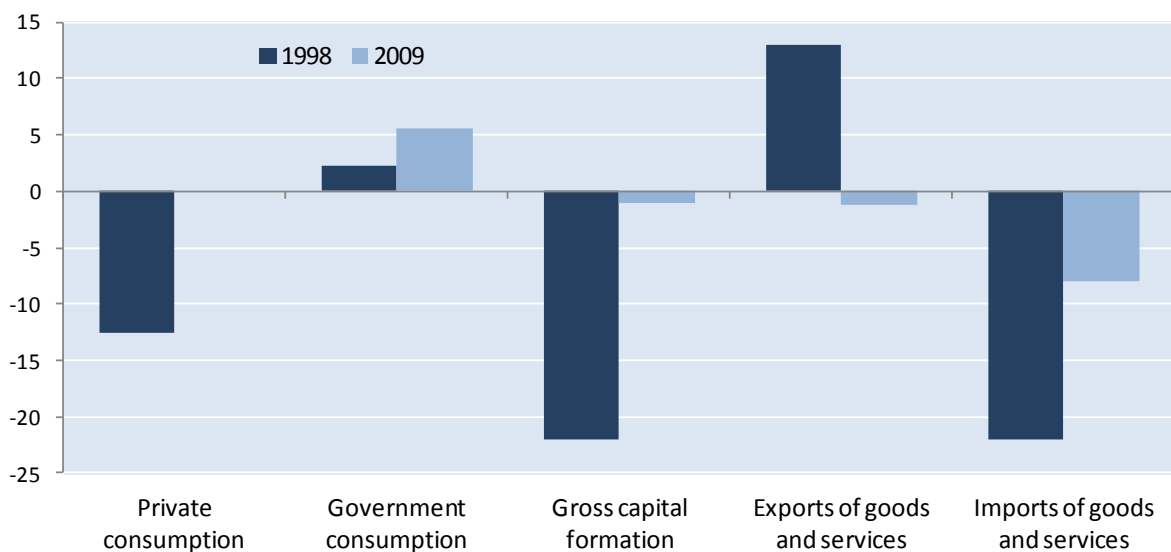
The Asian financial crisis of 1997 was limited to the East Asian region, and Korea's main export markets, such as the United States, were not greatly impacted. With relatively low exchange rates, exports recorded growth of more than 10 per cent during the crisis period, and the basis for export-led economic growth was maintained. During the Asian financial crisis, there was conspicuous reduction in investments due to the series of bankruptcies of major companies and instability in the financial markets. Moreover, private consumption was stagnant, which resulted in a great decrease in the importation of goods. However, immediately after the end of the crisis, the economy recovered with the Korean government's efforts to attract foreign direct investment (FDI), large-scale restructuring, and increase in exports. These efforts in



turn led to renewed investments, restored domestic demand, and growth of private consumption and imports (Figure 2.2).

While the cause of the 1997 economic crisis was both an internal and external problem, that of the 2008 economic crisis was mostly an external problem. With the onset of the global economic crisis and widespread recession, the first symptom that appeared as a warning to the Korean economy was the drop in exports. Under such circumstances, private consumption shrunk, and the Korean government set about to substitute the fall in private consumption with government expenditure by pursuing job-creation projects and implementing various policies. As the economy showed signs of slowing, investment dropped again, and the economy recorded a negative growth rate. The global recession resulted in negative growth rates of both exports and imports. Korea's trade with its major partners, the United States and Japan, became stagnant. However, as the economies of China and developing economies were able to stay sound, trade with these nations helped Korea's economy recover, and ongoing government expenditure reinvigorated domestic demand.

**Figure 2.2 The two crisis impacts on Korea's GDP growth by main components (percentage change)**



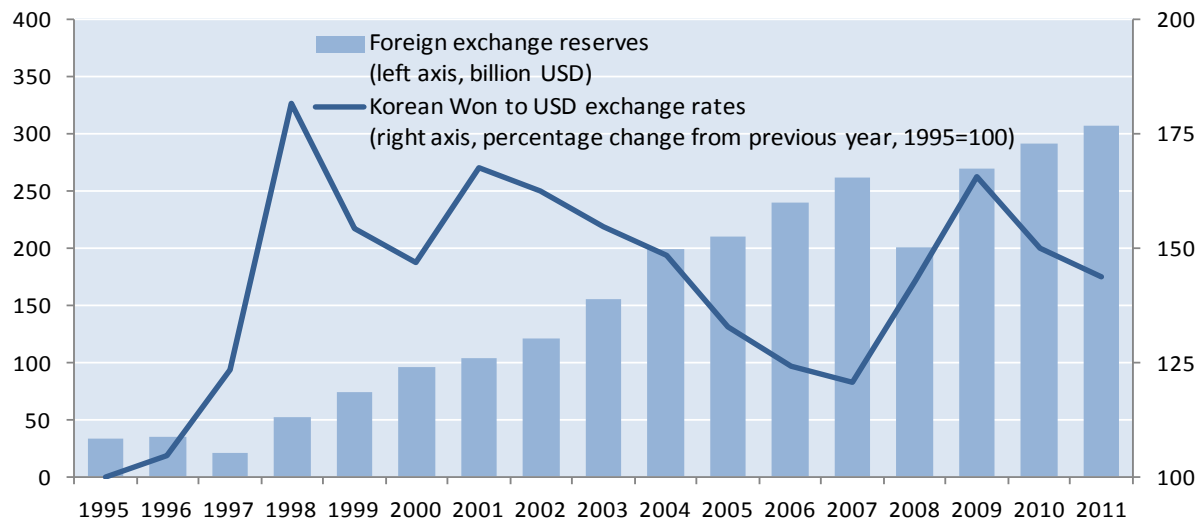
*Note:* For more detailed information, see APPENDIX A

*Source:* Bank of Korea, Economic Statistics System.

Changes in the currency rate and foreign exchange reserve have a considerable impact on export-dependent economies such as Korea. During the 1997 Asian financial crisis, Korea had to request a bailout from the IMF due to a lack of foreign currency. Since then, the country has consistently raised its level of foreign currency holdings, and from 2005, holds more than KRW 200 billion. With the onset of the global financial crisis, the Korean government depleted its foreign exchange reserves after stabilizing the won-dollar exchange rate. Thus its foreign exchange reserves went down for some time, but recovered soon after to maintain USD 315.8 billion as of February 2012

(Figure 2.3). This is the eighth highest level in the world, after China (USD 3,236 billion), Japan (USD 1,302 billion), Saudi Arabia (USD 556 billion), Russia (USD 505 billion), Taiwan (USD 418 billion), Brazil (USD 356 billion), and Switzerland (USD 316 billion).<sup>3</sup>

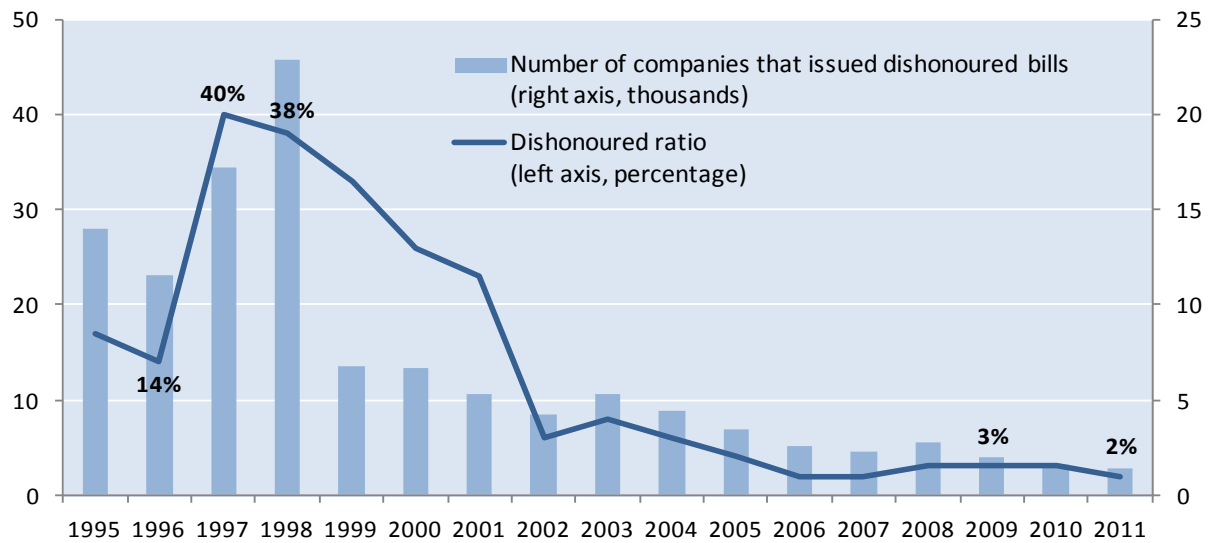
**Figure 2.3 Changes in foreign exchange reserves and currency rates in Korea, 1995-2011**



Source: Bank of Korea, Economic Statistics System.

The nature of the impact the two economic crises had on Korea's real economy, including the financial situation of companies, in particular small and medium sized enterprises (SMEs), was quite different. The percentage of dishonoured bills and bankrupt companies rose greatly during the crisis period of 1997. The percentage of dishonoured bills, which was 14 per cent in 1996, rose to 40 per cent and 38 per cent in 1997 and 1998 respectively, as foreign capital fled out of the country with the advent of the crisis. This meant that almost half of circulated bill amounts were not being paid, a sign of corporate financial distress. With the end of the crisis, the economy stabilized, as did the percentage of dishonoured bills, which stayed within 10 per cent. When the 2008 global economic crisis occurred, the percentage of dishonoured bills in Korea rose from 2 per cent to 3 per cent, which showed that the financial situation of businesses was much more stable than it had been during the Asian financial crisis (Figure 2.4).

<sup>3</sup> IMF: International reserves and foreign currency liquidity, 2012, <http://www.imf.org/external/np/sta/ir/IRProcessWeb/colist.aspx> (accessed 15 Mar. 2012); and CIA: World factbook, 2011, <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2188rank.html> (accessed 15 Mar. 2012).

**Figure 2.4 Crisis effects on business activities**

Source: Bank of Korea, Economic Statistics System.

Other than the rapid economic recovery, the impact the two economic crises had on the Korean economy was quite different in regard to the foreign exchange reserve, currency rate, imports and exports, and bankruptcy rates. The 1997 Asian financial crisis was an event that had a direct and powerful impact on the Korean economy. The general economic situation of Korea was unstable, with high bankruptcy rates and a greatly diminished foreign exchange reserve. It was only able to recover through the increase in exports as a result of low exchange rates, and the strenuous efforts of government and companies to restructure the economy. The 2008 global economic crisis led to a drop in Korea's short term economic growth and rise in exchange rates, but pre-emptive coping measures of the financial authority, consistent growth in exports, financial strength of companies, and other factors enabled a quick economic recovery.

## 2.2 Labour market impact of the economic crises in Korea

The macroeconomic analysis reveals the different nature of the two economic crises that impacted the Korean economy. The same holds true for the repercussions on Korea's labour market.

The employment growth responded to the economic growth, showing distinctive trends during the two economic crisis periods. During the 1997 Asian financial crisis, both the GDP and employment growth rate of Korea in the first quarter of 1998 were negative. The GDP growth rate hit bottom during the second quarter of 1998, dropping to -7.3 per cent, and subsequently recovered to show positive growth in the first quarter of 1999 at a rate of 6.4 per cent. The employment growth rate lagged one quarter behind the economic growth rate, recording an all-time low of -7.0 per cent in

the third quarter of 1998, and returned to a positive growth rate of 0.9 per cent in 1999 (Panel A of Figure 2.5).

Unlike the 1997 crisis, at the time of the 2008 global economic crisis, fluctuations in the employment growth rate were relatively moderate. Employment was not impacted as much as was the overall economy, and the growth rate of employment recovered quickly. The GDP growth rate began to drop from the fourth quarter of 2008, converting to a positive growth rate three quarters later at the third quarter of 2009. The employment growth rate recorded a negative growth rate of -0.6 per cent over the period of the first and second quarters of 2009 and converted to positive from the third quarter of 2009.

Such a difference in the effects of the two crisis events can be attributed to the different nature of the two crises and the corresponding response measures of the Korean government. During the 1997 crisis, a massive restructuring of the Korean labour market was implemented in line with stringent IMF demands. This led to a drastic reduction in employment, mostly of regular workers at large companies. During the 2008 financial crisis, the government initiated “job-sharing” efforts to avoid large falls in the employment. These efforts were centred on maintaining jobs by cutting working hours and wages and adopting flexible working conditions rather than mass lay-off (see Box 2.1).

#### **Box 2.1 The 2009 social dialogue and the job-sharing efforts in Korea**

It was agreed upon by labour and management that through “job-sharing,” management would limit lay-offs and help workers maintain their employment status through the sharing of duties. In 2009, immediately after the advent of the 2008 global financial crisis, an agreement was reached between labour and management to put this into action. In February 2009, the Federation of Korean Trade Unions (FKTU) and the Korea Employers Federation (KEF) formed an emergency committee consisting of representatives of labour, employers and civil society sides and the government for the purpose of conceiving measures to overcome the economic crisis. Through official meetings and various discussions, the committee adopted an “Agreement among labour, employers, civil society and government to overcome the economic crisis.” Through this agreement, workers and employers agreed to share and maintain jobs through freezes, returns, and cuts in wages, as well as restrictions in lay-offs, and to share the pain through increased concessions and negotiations between labour and management at the corporate, regional and national levels.

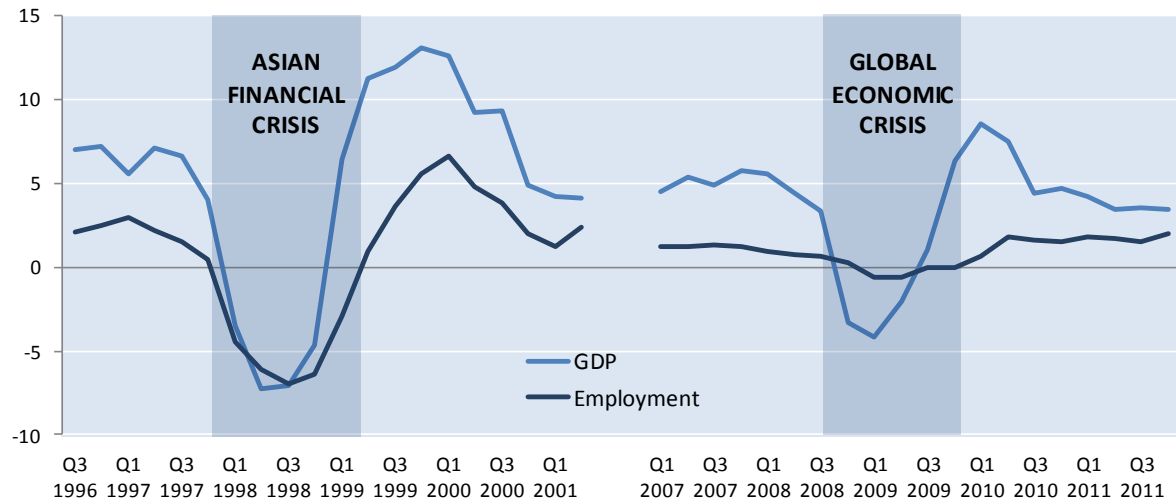
To overcome the crisis, the government pursued various measures, such as increasing the financial assistance to companies that maintain employees by initiating temporary shutdowns or holding training sessions rather than laying off workers. The level of assistance for temporary shutdowns of operations and suspensions of workers was increased from two-thirds to three-quarters of paid allowance (one-half to two-thirds for large companies).

Panel B of Figure 2.5 shows a drastic fall in the employment growth of advanced countries as caused by the global economic crisis of 2008. In the United States, Japan and most countries in Europe, as the economic growth rates dropped, employment

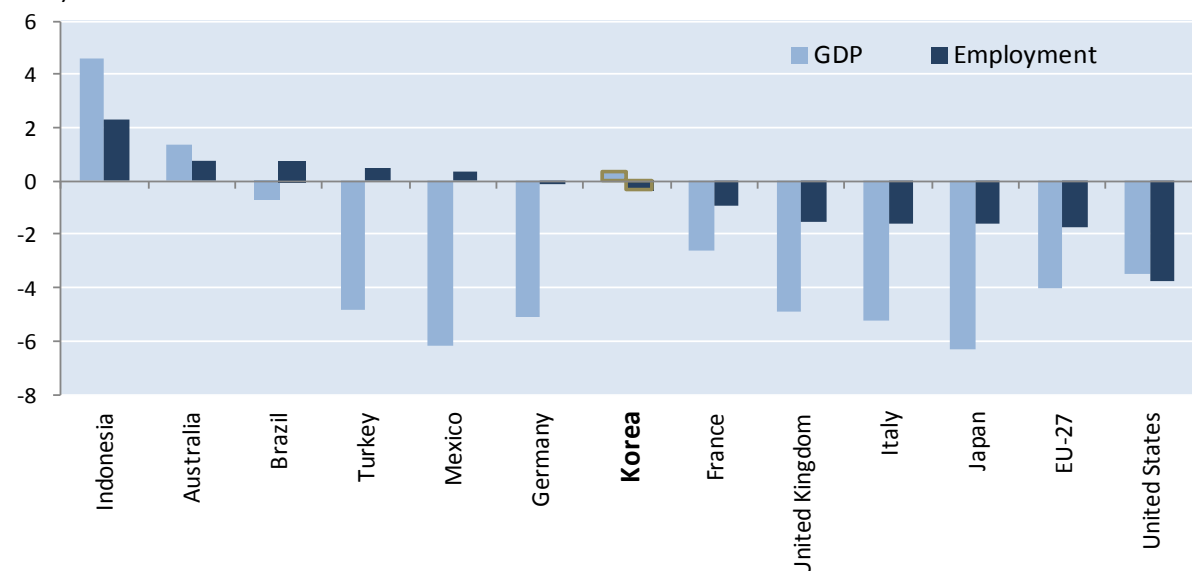
growth rates fell simultaneously. In the case of Korea, however, with the rapid economic recovery and tripartite constituents' cooperation for overcoming the crisis, there was less variance in the economic growth rate than there was in the major advanced economies, and the fall in employment was less extensive.

**Figure 2.5 Employment adjustment to GDP growth**

Panel A: Quarterly GDP and employment growth rate in Korea (per cent)



Panel B: GDP and employment in selected G-20 countries, change in 2009 compared to 2008 (per cent)



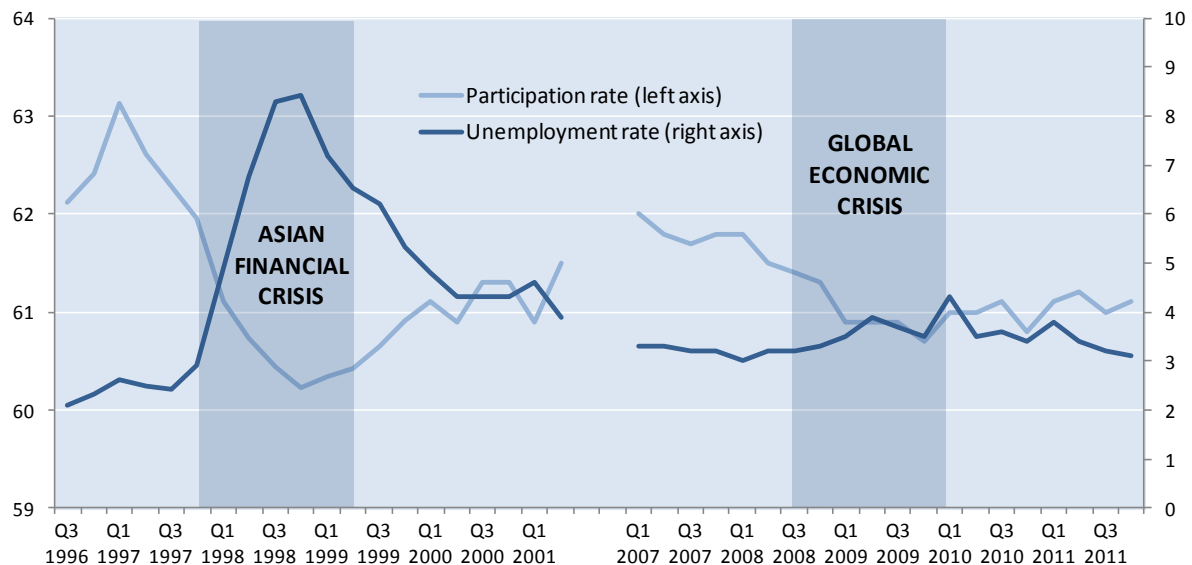
Source: Bank of Korea, Economic Statistics System; ILO, LABORSTA; IMF, World Economic Outlook (WEO) database, September 2011; Eurostat database; Statistics Korea.

Trends in the economically active participation rate and unemployment rate also reveal the different impact of the two economic crises on Korea's labour market. The unemployment rate, which remained in the lower 2 per cent before the 1997 crisis, climbed to 4.9 per cent in the first quarter of 1998 due to the crisis' impact,

subsequently rising to as high as 8.4 per cent in the fourth quarter of 1998. It went on to decrease gradually, but recorded 3.7 per cent in the fourth quarter of 2001, which did not meet the pre-crisis levels. However, the unemployment rate during the 2008 global economic crisis did not respond as quickly as did that of the 1997 crisis. In the second quarter of 2009, the unemployment rate grew to 3.9 per cent, but this was a considerably stable level when compared to the trough of the 1997 crisis. Thereafter, due to a rise in the number of jobseekers as the economy entered into recovery stage and an increase in applications with the implementation of job creation projects supported by the government in the first quarter of 2010, the unemployment rate rose to 4.3 per cent,. In the fourth quarter of 2011, the unemployment rate dropped back to the pre-crisis level of 3.1 per cent (Figure 2.6).

Also, with the Asian financial crisis, the economically active participation rate fell greatly as a result of massive lay-offs. The participation rate dropped from 63.1 per cent in the first quarter of 1997 to as low as 60.2 per cent in the fourth quarter of 1998 due to the crisis. During the global economic crisis of 2008, the economic participation rate fell not as drastically as it did around the 1997 crisis (due to job-holding measures) and showed the pattern demonstrated in the figure below.

**Figure 2.6 Quarterly Economically active participation rate and unemployment rate during two crisis periods, seasonally adjusted (per cent)**



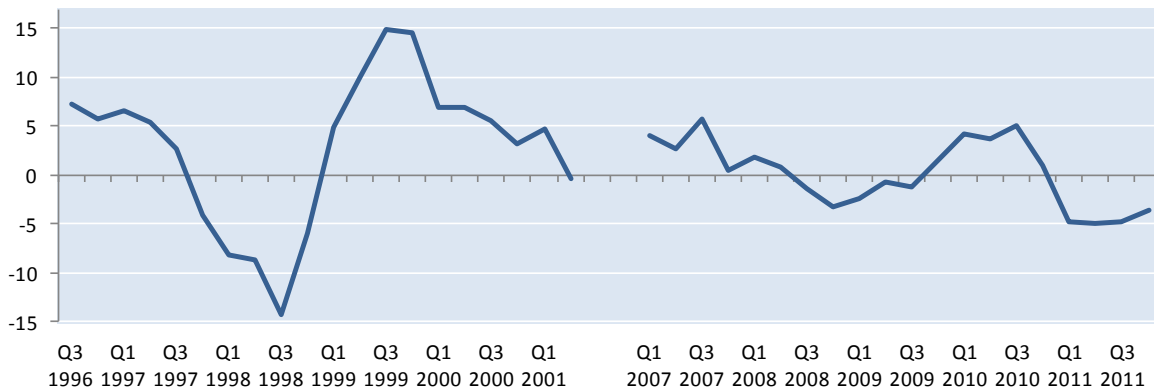
*Note:* The seasonally adjusted quarterly data were computed for this study by using the ARIMA X-12 as seasonally adjusted data for the economically active participation rate and the unemployment rate in the Statistics Korea are available only after year 2000.

*Source:* Statistics Korea, Economically Active Population Survey.

There seems to be a difference in the way firms responded to the macroeconomic shocks that resulted from the crises. During the 1997 financial crisis, together with a fall in employment resulting from labour restructuring, there was an immediate drop in real income, which was due to a reduction in overtime pay and fringe benefits. However, during the 2008 global economic crisis, while there was no considerable fall

in employment due to efforts to maintain jobs through cutting working hours and sharing of duties, the fall in real income was relatively less steep (Figure 2.7).

**Figure 2.7 Change of real wage growth (percentage change from one year earlier)**



Source: Ministry of Employment and Labor, Labour Force Survey at Establishments

Income disparity<sup>4</sup> among the Korean urban households has widened dramatically since the 1997 financial crisis and has not yet dropped to the pre-crisis level. However, during the 2008 global economic crisis, income disparity was not exacerbated; there was even a small reduction. The 1997 financial crisis affected low-income households disproportionately. Moreover, the burden born by low-income households did not seem to be lifted with economic recovery, at least in relative terms, because their income grew less quickly than did those of high-income households (Panel A of Figure 2.8).

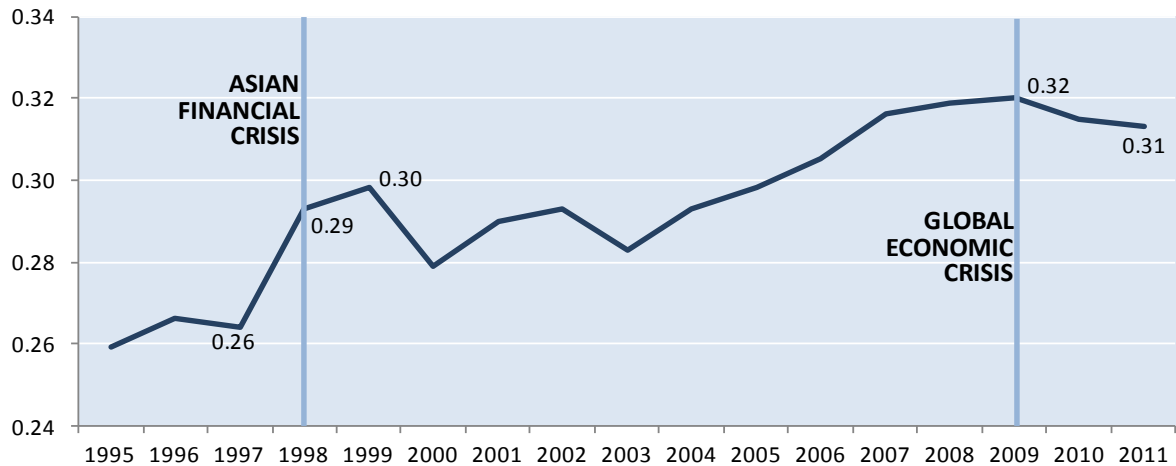
The widening income inequality is not specific to Korea. When making a global comparison of the Gini coefficient, mainly with the G20 and European countries, Korea's is lower than that of most countries, with the exception of some European countries (Panel B of Figure 2.8).

The East Asian financial crisis was associated with massive labour restructuring (consisting mostly of regular workers) that led to a historically high unemployment rate. However, in the 2008 global financial crisis, though the economy did slow down, jobs were maintained through various measures. Companies that had to resort to massive lay-offs with the crisis in 1997 experienced difficulty in hiring high quality human resources as the economy entered into cyclical recovery. As a result, they refrained from initiating major changes in their human resources in the wake of the crisis of 2008. The government also provided various measures of policy support to prevent chaos in the labour market, and its intervention seemed to have a positive impact on the job market.

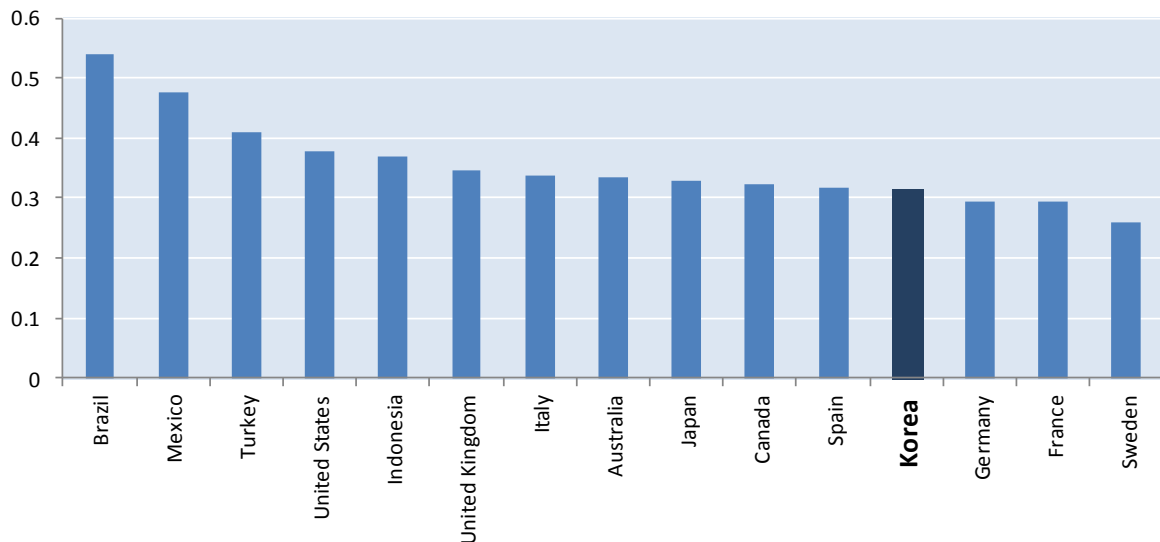
<sup>4</sup> Measured by the Gini coefficient.

**Figure 2.8 Income inequality in Korea (measured in Gini coefficient)**

Panel A: Gini coefficient in Korea, 1995-2011



Panel B: Gini coefficient in selected G-20 and European countries, most recent data available



Source: OECD database; Statistics Korea; UNDP, International Human Development Indicators.

## 2.3 Economic crises and aggravation of pre-existing labour market problems in Korea

With the two economic crises impacting the country, the deeply embedded labour market problems which had existed in Korea before the 1997 East Asian financial crisis, such as the issue of youth unemployment and non-regular workers<sup>5</sup>, were aggravated and exposed.

<sup>5</sup> In Korea, the government defines non-regular workers to include the following; fixed term, part-time, and atypical workers (dispatched workers, subcontracted workers, independent self-employed workers, domestic and daily workers, etc).



The college attainment rate in Korea continued growing in the 1990s while economic growth started to slow down, hampering the creation of quality jobs and boosting unemployment of college graduates. Such mismatch for youth lingered in the labour market even before the financial crisis broke out.

Meanwhile, labour market dualism in Korea began in the 1990s as companies started using non-regular workers mainly for non-core positions in the organization with an aim of securing labour flexibility in the face of rising global competition. Again, the issue of non-regular employment was born prior to the crisis.

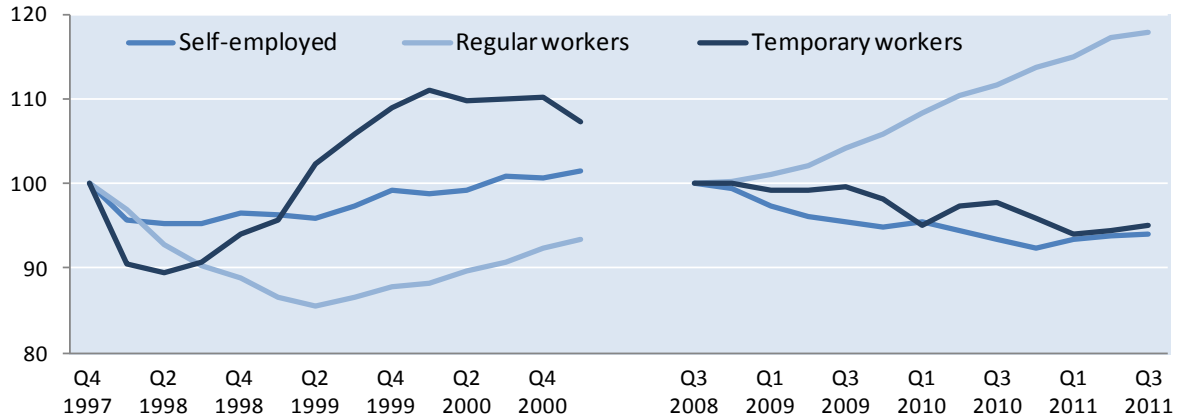
It was under such circumstances of structural problems in the labour market that the two economic crises came about once in 1997 and again in 2008. The employment adjustments during the two crises had different impacts on worker groups. In the case of the 1997 crisis, all categories of workers experienced very rapid employment adjustment following the macroeconomic contraction and economic restructuring. However, the workers most vulnerable and hard-hit by the 2008 global crisis were groups of young workers, temporary and self-employed.

Young workers are among those most affected by the economic crisis as firms reduce recruitment of new jobseekers during economic downturn. Unlike the 1997 financial crisis when job destruction took place in all age groups due to corporate restructuring, old and middle aged workers appeared to retain secure jobs during the global crisis period. Furthermore, there are employment gains among older workers. It appears that public works programmes had contributed to job creation (Panel B of Figure 2.9). On the other hand, through two economic crises, young people experienced not only a drop in the number of jobs, but also slow recovery in terms of regaining employment.

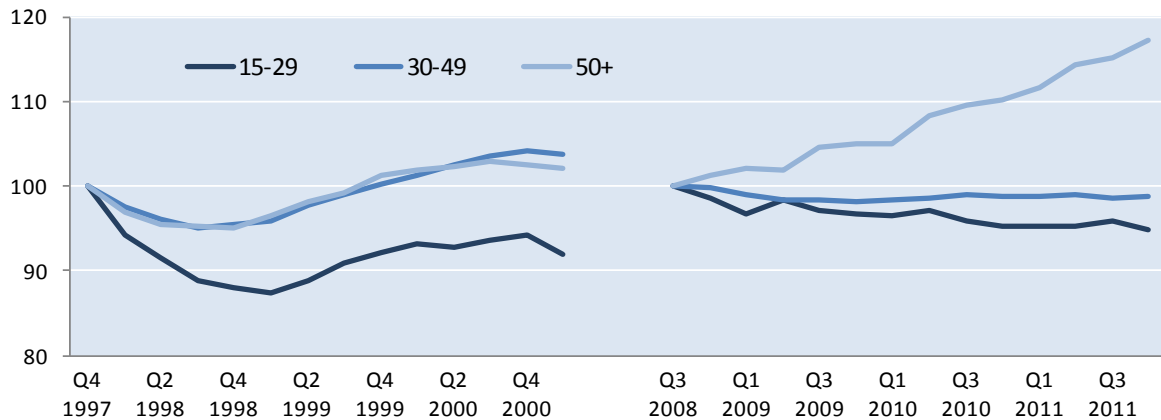
During the 1997 crisis, the fall in the number of employed persons consisted mostly of regular workers. Compared to temporary and self-employed workers, the drop in the number of regular workers was not brief and persisted for a long period. Even after 1999, when the economy began to recover, the decrease in the number of regular workers continued, while the number of temporary workers continued to rise. The growth rate of the number of regular workers recovered only after 2000, when the economy finally reached full stability. However, with the advent of the global economic crisis in 2008, regular workers were impacted only minimally, and a strong rising trend of approximately 5 per cent was maintained, leading to the increase in total employment. On the other hand, the number of temporary and self-employed workers dropped in times of crisis (Panel A of Figure 2.9).

**Figure 2.9 Changes in employment by different worker groups during the two crisis periods (percentage changes)**

Panel A: By employment status (Q4 1997, Q3 2008 = 100)



Panel B: By age (Q4 1997, Q3 2008 = 100)



*Note:* Temporary workers include daily workers.

*Source:* Statistics Korea, Economically Active Population Survey

The purpose of this section is to discuss how these crises shifted the labour market, especially the mismatch for youth and labour market dualism characterized by fragmentation between regular and non-regular workers.

### 2.3.1 Youth employment<sup>6</sup>

The problem of high youth unemployment is an issue not only in Korea, but around the world. Korea's youth unemployment rate is relatively lower than is that of other countries, but the fact that the youth employment rate is low is also of great concern.

<sup>6</sup> "Youth" is classified as young workers aged 15 to 24 in this report although Korea internally defines youth as those aged 15-29 (see Box 2.2)

**Box 2.2 Classification of “youth” in Korea**

When making international comparisons, “youth” is classified as workers aged between 15 and 24. However, internally, Korea defines “youth” as persons aged 15 to 29. In Korea, the entry rate into higher level education is quite high. At least 80 per cent of graduates of middle school go on to high school, while at least 70 per cent of high school graduates go on to university. In addition, as Korea has an obligatory military enrolment system (18 months of mandatory service), most young males enter the labour market in their late 20s after completing their military service and graduating from college.

Youth unemployment, which fluctuated at the 7 per cent level in the early to mid 1990s, rose up to 16 per cent during the 1997 Asian financial crisis, then dropped and stabilized at 8 per cent. In 2009, immediately after the global financial crisis, the youth unemployment rate rose to 9.1 per cent, but rested at 8.7 per cent in 2011 (Panel A of Figure 2.10). An unemployment rate of 8 per cent is relatively low compared to other major countries (see Panel B of Figure 2.10), but the ongoing drop in the youth employment rate reveals the severity of the youth problem. The youth employment rate, which exceeded 30 per cent before the Asian financial crisis, continued on a declining trend in the 2000s. In 2009, it recorded 22.9 per cent, which was the lowest during the past 20 years, but then bounced back a little to mark 23.1 per cent in 2011. The drop in the youth employment rate may have been influenced by a decrease in the total number of employed persons due to the slowdown of the economy, but was also caused by the increase in the number of school-enrolled persons, as college entrance rates soared after the end of the 1990s. The college entrance rate in Korea rose from 52.5 per cent in 2005 to 71.0 per cent in 2011.<sup>7</sup> This is higher than the United States (69.8 per cent), Japan (49.1 per cent), and Germany (39.7 per cent).<sup>8</sup>

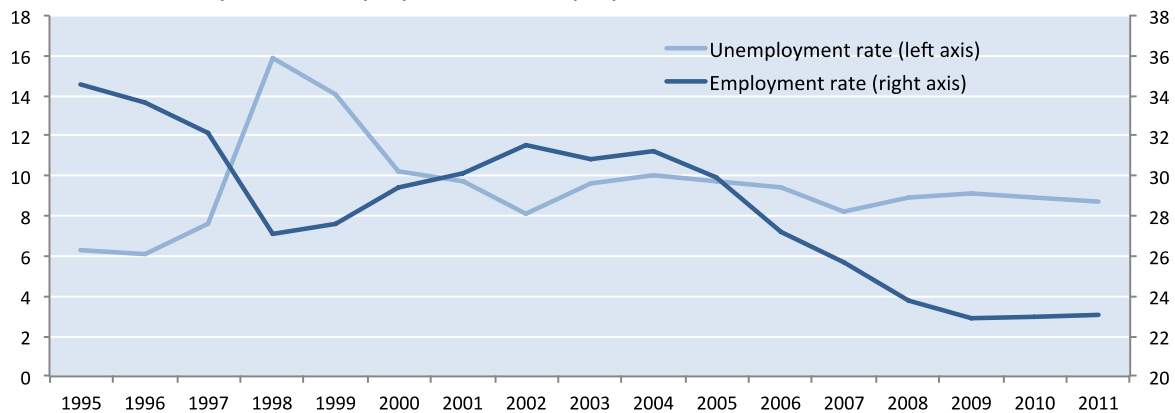
The low youth unemployment rate can also be partially attributed to corporate culture and the job seeking pattern of young workers in Korea. Large companies and public institutions, preferred by young job-seekers in Korea, announce a recruitment notice only for a certain period of time, rather than all year round. As a result, rather than continuing to look for jobs, young jobseekers become included in the non-economically active population as they prepare their job applications for those companies, and only resume their job search during the recruitment season. The average job-seeking period is, therefore, short, with the average youth job-seeking period of 2011 being 2.3 months, and the unemployment rate for those unemployed for at least six months a very low 0.5 per cent.

<sup>7</sup> Korean Educational Development Institute, Education Sector Statistics

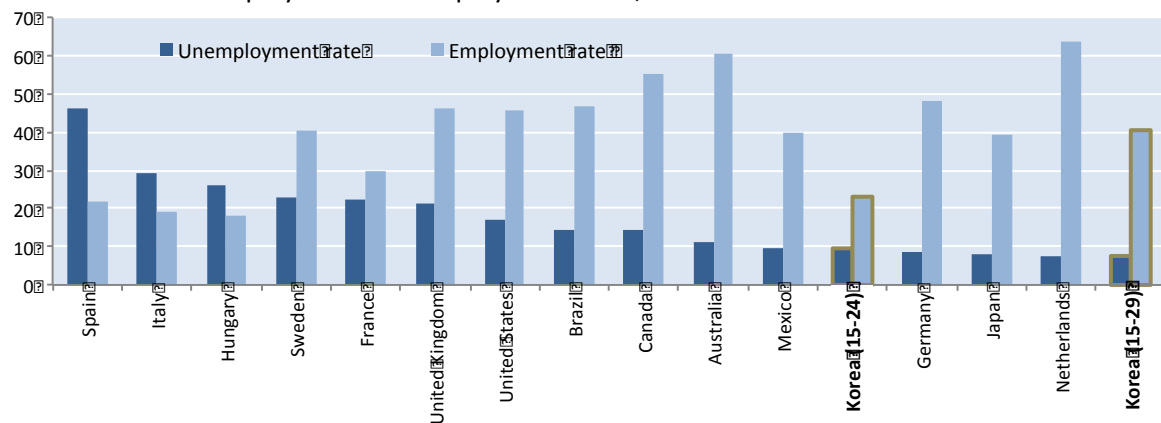
<sup>8</sup> OECD: Education at a Glance 2011: OECD indicators (Paris, 2011).

**Figure 2.10 Trends in youth unemployment and employment rates (per cent)**

Panel A: Trends in youth unemployment and employment rates, 1995-2011



Panel B: Youth unemployment and employment rates, 2011



*Note:* Data for Mexico refer to persons aged 14-24. Data for Spain, United Kingdom and United States refer to person aged 16-24.

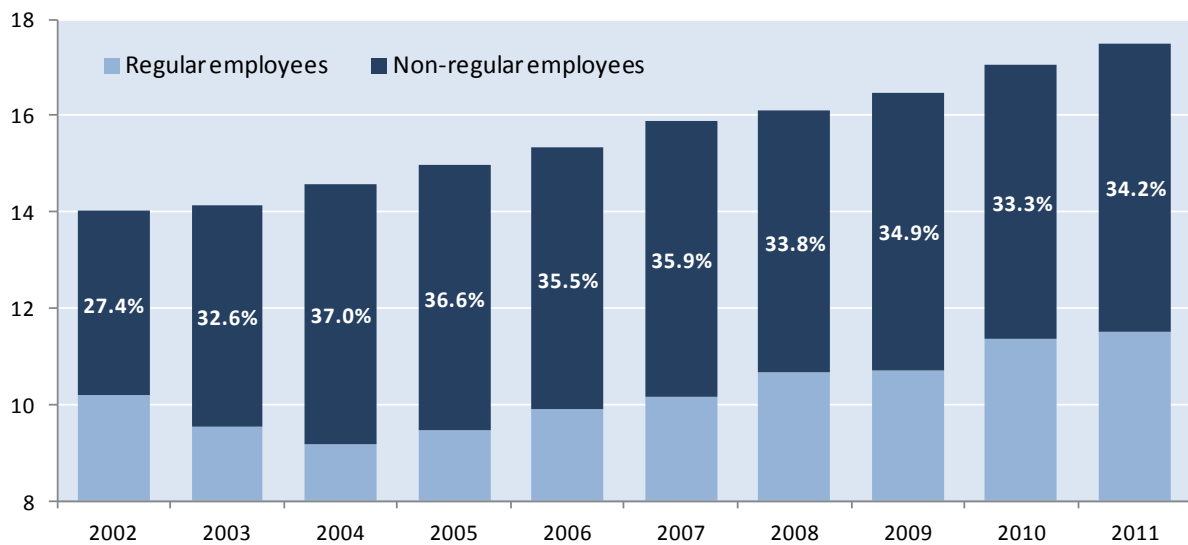
*Source:* ILO, LABORSTA; Statistics Korea, Economically Active Population Survey.

### 2.3.2 Non-regular workers

The number of non-regular workers has continued to grow, especially since 1998. Surfacing in the mid-2000's as a major labour market issue in Korea, the essence of the problem is that, unlike regular workers, job stability is not guaranteed for non-regular workers, resulting in a significant gap in wage and social insurance between the two worker groups. After the Asian financial crisis, labour restructuring, mostly of regular workers, led to growing use of non-regular workers, such as temporary and part-time workers, as they are easy to be retained and terminated. According to Supplementary Results of the Economically Active Population Survey,<sup>9</sup> the number of non-regular workers increased one and half fold from 3.84 million in 2002 to 6 million in 2011. The proportion of non-regular workers among waged workers also rose from 27.4 per cent in 2002 to 34.2 per cent in 2011 (Figure 2.11).

<sup>9</sup> Since August 2002, this survey has been implemented to conduct a detailed analysis of non-regular workers. Since 2007, surveys have been conducted on two occasions a year, in March and August.

**Figure 2.11 Change in the size and share of non-regular workers, August 2002-2011 (million persons)**



Source: Statistics Korea, Supplementary Results of the Economically Active Population Survey.

In regard to non-regular employment, temporary workers grew 67 per cent from 2.1 million in 2002 to 3.4 million in 2011, while part-time workers grew 110 per cent from 0.8 million in 2002 to 1.7 million in 2011. Atypical workers, including temporary agency workers, independent contract workers, workers in special types of employment, at-home workers, and daily (on-call) workers, grew 39 per cent from 1.7 million in 2002 to 2.4 million in 2011. The proportion of the part-time workers is small compared to other types of non-regular employment, but it grew more than two-fold in respect to the entire percentage of non-regular employment. Moreover, the percentage of involuntary part-time worker is climbing. Among part-time workers, the share of involuntary part-time workers rose from 52.9 per cent in 2006 to 55.3 per cent in 2011.<sup>10</sup>

Non-regular workers are mostly concentrated in SMEs<sup>11</sup>. The share of non-regular workers in SMEs out of the total non-regular workers is more than 90 per cent, rising slightly from 93.8 per cent in 2002 to 94.4 per cent in 2011. As for the share of non-regular workers over total workers according to business size in 2011, the percentage in large companies was 17.2 per cent, while in SMEs the percentage was a high 35.0 per cent. The smaller the company, the higher was the take-up of non-regular workers, with 46.1 per cent for small companies with less than five employees.<sup>12</sup>

The transition rate from non-regular employment to regular employment in Korea takes up between 33 and 38 per cent, recording 37.5 per cent in 2002, declining thereafter and then recovering to 2002 levels at 37.2 per cent in 2006.<sup>13</sup> After the

<sup>10</sup> Statistics Korea, Supplementary Results of the Economically Active Population Survey

<sup>11</sup> SMEs in Korea typically refer to businesses with less than 300 employees.

<sup>12</sup> Statistics Korea, Supplementary Results of the Economically Active Population Survey

<sup>13</sup> J-Y Nam: "Characteristics of Movement of Non-Regular Workers as Observed through the Korean Labor and Income Panel Study", in *Monthly Labor Review*, January 2009, p.86-92

implementation of the Non-Regular Workforce Protection Act in 2009, the transition rate to regular employment was 36.8 per cent, according to a survey conducted by the Ministry of Labor in July 2009, which was similar to previous levels.

# EMPLOYMENT POLICY AND INSTITUTIONAL REFORM TOWARDS MORE ACTIVE MEASURE

# 3

## 3.1 Evolution of employment policies and intensified employment services

### 3.1.1 Evolution of employment policies in Korea

During the period of high growth from the end of the 1960s to the 1970s, Korea's employment policies focused on supply-side issues, such as vocational training and education, to support the overseas labour dispatch and the development of the core infrastructure of the country. From the end of the 1970s to the 1980s, the problem of unemployment was viewed as what was needed to be solved for social stability, and employment stabilization policies were implemented. In the 1990s, economic growth slowed and the need for countermeasures against large scale unemployment and active labour market policies surfaced. To provide institutional support for such needs, the Employment Insurance System was adopted in 1995.

However, full-fledged implementation of employment policies in Korea only began after the 1997 Asian financial crisis. Certain large companies with weak financial capacity went bankrupt, and SMEs that were supplying parts to these companies were also adversely affected. This led to a serious liquidity crunch for other companies, and most could not avoid initiating massive lay-offs.

Consequently, labour, management and government engaged in "social dialogue" in February 1998, which resulted in the "great social compromise,"<sup>14</sup> through which social partners would share the burden during times of economic difficulty. The government would raise finances through budget cuts and implement public work programmes. Companies would do their best to refrain from laying off workers, while employment flexibility would be heightened so that lay-offs would be permissible in

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<sup>14</sup> The major contents of the "Social Agreement for Overcoming the Economic Crisis" established on 6 February, 1998 include: (i) corporate restructuring; (ii) job creation policy and countermeasures against unemployment; (iii) price stabilization; (iv) wage stabilization; (v) expansion of social security; (vi) promotion of labour-management cooperation; and (vii) corporate management transparency. Labour market flexibility was enhanced, with legislations on worker lay-offs and dispatches. On the other hand, the workers' rights were improved, with expanded social security (increased support for unemployment), guarantee of the right of public servants and teachers to unite, and guarantee of political activities of trade unions.

unavoidable cases. To protect workers that have been subsequently dismissed, social protection would be expanded and strengthened.

Employment insurance implemented in 1995 was expanded during the process of overcoming the economic crisis.

- Beneficiaries of employment insurance were expanded from businesses with at least five employees to businesses with at least one employee.
- The minimum unemployment allowance was also increased from 50 per cent to 70 per cent of minimum wages.
- A variety of financial support systems were adopted to promote companies' maintenance of employees and new recruitments.
- A programme to provide out-placement service was also implemented.
- "Work-net" to provide speedy information to job seekers and employee-seekers were set up.

In addition, a system of guaranteeing the payment of unpaid wages was adopted to guarantee wages to workers when companies went bankrupt, and a "wage guarantee fund" was established.

In order to implement active measures for overcoming the issue of unemployment, administrative infrastructures were also expanded. "Job Centers" acting as public employment service offices were established in each region nationwide.<sup>15</sup> Large numbers of professional vocational counsellors which were not civil servants were hired,<sup>16</sup> fulfilling tasks such as providing employment services (job placement, vocational counselling), employment insurance management (management of employment insurance policyholders, allowance payment for unemployment), and vocational training.

These efforts to overcome unemployment, together with the economic re-invigoration due to growth in exports and burden-sharing achievements through the great social compromise, paid off in decreasing the unemployment rate from 8.6 per cent in February 1999 to 3.0 per cent at the end of 2002.

Meanwhile, although in the 2000s Korea was able to overcome the shocks of the economic crisis, the job creating ability of the labour markets had dropped considerably, and the proportion of unstable jobs, such as non-regular workers and agency workers, rose as a result of companies' strategy of expanding labour market flexibility. This led to the social problem of unemployment of highly-educated youths, such as college or graduate school degree holders, heightening the need to come up

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<sup>15</sup> 168 Job Centers were established nationwide up until 2001. However, from 2004 to 2006, these were reduced to 85, to provide high quality employment services by making the Job Centers larger and more organized, including by building "General Job Centers". As of April 2012, 81 Job Centers are in operation.

<sup>16</sup> In 1998, in the process of implementing anti-unemployment measures, 1,260 new professional vocational counsellors were recruited.



with measures for non-regular workers. Accordingly, a variety of programmes to tackle youth unemployment were implemented, such as youth internship programmes. Initiatives were also made to provide assistance to non-regular workers, based on the finances of the employment insurance system. Job Centers expanded throughout the country, and approximately 3,000 staffs in Job Centers were hired to provide assistance to jobseekers and employers. The infrastructure for the implementation of employment policy has been expanded, but Korea still has not been able to make fundamental improvements in the structural problems of its labour market.

With such inherent structural problems, the onset of the 2008 global economic crisis led to another series of shocks for Korea's labour market. With the proposal of the Federation of Korean Trade Unions, an emergency committee consisting of members from the government, labour, management,<sup>17</sup> and religious/social/citizens groups was established, and in February 2009, an "Agreement to Overcome the Economic Crisis through a Great Social Compromise" was reached.

The Agreement stipulates how the burden will be shared, and what role each economic entity will assume. Trade unions shall implement agreements to freeze, return or cut wages, while management shall maintain its employees. The government shall provide full support through various policies to the efforts of labour and management to tide them over during the crisis. The 2009 agreement is similar to the social agreement reached in 1999 during the Asian financial crisis, as it was a declaration of burden-sharing in an effort to overcome the economic crisis. However, the method of implementation of the agreement differed. The 2009 agreement focused on keeping jobs through job-sharing. In the past, massive lay-offs were initiated to cope with management difficulties, while after economic recovery, people were hired back relatively quickly. This brought great pain to workers, as well as a loss in skilled labour for companies. Based on this experience, labour and management came to an agreement that it was better for companies to maintain their workers through "job-sharing", which would help them cope pro-actively with the re-organization of the global economy after the crisis.

The government presumed that the repercussions of the global economic crisis were greater and more far-reaching than during the 1997 crisis, and postulated that speedy recovery would be difficult. Short-term job creation measures through increased public expenditure would not be enough. Therefore, it initiated aggressive employment support services, such as (i) more systematic and intensified jobseeker support, (ii) a Vocational Skills Development Account System, which provided training services customized to the needs of the jobseeker requiring training, and (iii) upgrades in "Work-Net" information and increase in user convenience.<sup>18</sup>

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<sup>17</sup> The Korean Confederation of Trade Unions (KCTU), a nationwide labour group, did not participate in the labour-management-citizens-government emergency committee.

<sup>18</sup> Besides "strengthening employment services", the employment policies implemented by the Korean government to cope with the global economic crisis were focused on the establishment and implementation of job-focused economic and social policy, and employment policy coordination mechanisms and policy monitoring/evaluation systems that could support it. This shall be discussed in more detail in Chapter 4 and 5.

### **3.1.2 Intensified employment services**

As part of its efforts to build infrastructure for employment stabilization, in 1998, immediately after the Asian financial crisis, Job Centers were established nationwide. Job Centers are public employment service organizations involved in employment assistance (job intermediation, vocational counselling), employment insurance management (management of employment insurance policyholders, allowance payment for unemployment), and vocational training. However, in the early stages of establishing the Job Centers, the level of employment support services in Korea was low in terms of personnel and programmes. Subsequently, from 2005, the Korean government began pursuing measures to expand public employment services.

#### ***Expansion of Job Centers***

To increase the number of staffs for the Job Centers, 620 job consultants were newly recruited from 2006-2007. To provide employment security to the private vocational counsellors at the Job Centers, measures were taken to convert their status to that of government officials in 2007. Moreover, to promote customer convenience and provide diverse services, Job Centers were merged to become large-scale centres concentrated in major cities. Job Center offices were purchased nationwide to gain ownership of facilities.

#### ***Intensified employment services***

Efforts were also made to improve the jobseeker support programme. From 2006, intensive counselling was provided to jobseekers in order to assess the capabilities of the job seeker and to establish a subsequent “individual action plan.” This was called “customized employment services,” which provided job seeking support for each individual job seeker in a step-by-step manner. Such services provided a basis for the gradual expansion of intensified employment services catered to each type of group that were vulnerable and faced difficulties in the job-seeking process. While in 2009, the “Employment Success Package Programme” was implemented for low income jobseekers, in 2012, the “Youth Employment Success (YES)” project was adopted for youths and “Finding new job programme” was run for middle-and old-aged jobseekers (Table 3.1).

**Table 3.1 Intensified employment services**

	YES Programme	Finding New Job Programme	Employment Success Package Programme
<b>Target</b>	<p><b>Youths aged 15-29</b></p> <ul style="list-style-type: none"> <li>• Unemployed high school graduates</li> <li>• Unemployed college graduates at a period of more than six months since graduation</li> </ul>	<p><b>Middle- and old- job seekers aged 40-64, with less than 200 per cent of minimum costs of living</b></p> <ul style="list-style-type: none"> <li>• Unemployed at a period of more than once months since receiving final unemployment benefits</li> <li>• Unemployed that have subscribed to employment insurance in the past but do not yet qualify for employment benefits</li> <li>• Jobseekers unemployed for the past six months or more</li> </ul>	<p><b>Low income jobseekers aged 15-64 with less than 150 per cent of minimum costs of living</b></p> <ul style="list-style-type: none"> <li>• Beneficiaries of “National Basic Livelihood Security” who are capable of work</li> </ul>
<b>Service</b> (provided to all programmes)	<p><b>Stage 1: evaluation and career path-setting (within one month)</b></p> <ul style="list-style-type: none"> <li>• Participants receive intensive individual counselling from Job Center counsellors (employment consultants), and an assessment on their employment abilities, desire and techniques.</li> <li>• In accordance with the results of the evaluation, an Individual Action Plan is established, which includes services provided after the second stage.</li> </ul> <p><b>Stage 2: improvement in vocational ability (6-8 months)</b></p> <ul style="list-style-type: none"> <li>• Vocational training, jobs for experience, start-up programmes, youth intern programmes.</li> </ul> <p><b>Stage 3: intensive job matching (2 months)</b></p> <ul style="list-style-type: none"> <li>• Job Center counsellors accompany programme participants to their job interviews and provide support.</li> <li>• Group interview sessions are held by participants and recruiting companies.</li> </ul>		
<b>Allowance</b> (provided to all programmes)	<p>Stage 1: KRW 200,000 per month Stage 2: KRW 200,000 per month, and KRW 110,000 when participating in vocational training</p>		
<b>Payment period</b>	A maximum of 7 months	A maximum of 9 months	
<b>Training costs</b>	Payment of up to KRW 2 million, use of Vocational Skills Development Account System	Payment of up to KRW 3 million, use of Vocational Skills Development Account System	
<b>Incentives upon successful job finding</b>	None	Payment of up to KRW 1 million as successful job finding allowance	

### ***Strengthening of vocational training***

Other important parts of strengthening employment services are the “Vocational Skills Development Account System” and counselling for trainees. Vocational training practices, which were adopted with the enactment of the “Vocational Training Act” in 1967, contributed to Korea’s industrialization and economic development by fostering functional manpower. However, technological advancement led to changes in labour demand, while forms of employment became more diversified to include non-regular work. Such circumstances led to the realization of the importance of ongoing vocational development for the attainment of workers’ job stability and smooth transition in the labour market. However, vocational trainings held to date have not fully reflected the demands of trainees and companies, with the government-led delivery system resulting in low training participation rates, polarization of participation opportunities (focus usually on regular workers at large companies), and gaps within the actual demand for training at business sites. As a result, the Vocational Skills Development Account System has been adopted for the purpose of heightening the effects of training through linkage with employment services. The training options for trainees have been expanded, the training market has become more active through the alleviation of entry barriers, and intense counselling and information provision has become possible (for the comparisons of two training systems, see Table 3.2).

#### **Vocational Skills Development Account System**

Under the Vocational Skills Development Account System, jobseekers that receive counselling and are recognized as needing training are given direct training cost assistance of up to KRW 2 million (up to KRW 3 million for participants of the Employment Success Package Programme), upon which the jobseeker may select the training course that he/she deems most suitable for him/herself among the many training programmes certified by the government.

In order for the trainee to receive a training voucher, he/she must personally visit the Job Center to receive counselling. If it is recognized during the counselling that the person needs training, the type of training programme is subsequently determined. The jobseeker whose attainment of a training voucher is confirmed then goes on to receive training under the programme that he/she chooses among the government-certified Eligible Training Programme List (ETPL)<sup>19</sup>. After the end of the training, the training fee is automatically paid through a financial institution to the entity that provided the training.

With the adoption of the Vocational Skills Development Account System in Korea, 25 to 45 per cent of the training fee had to be assumed by the trainee him/herself, encouraging prudent training selection decisions and faithful programme enrolment. However, jobseekers participating in the aforementioned YES programme,

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<sup>19</sup>The Eligible Training Programme List enables the selection of a training programme among the many programmes that exist in the training market which meet government standards. This list is provided to the trainee through the HRD-Net.

Employment Success Package Programme, and Finding My Job Programme would be completely exempt from payment of the training fee.

As explained above, job seekers that apply for the issuance of a Vocational Skills Development Account must receive counselling regarding the matter of vocational training from a counsellor at the Job Center. Such counselling consists of an overall evaluation of the individual's training purpose and training needs, to prevent those that do not need training from receiving training, and providing guidance to each jobseeker on what is the most appropriate training programme for him/herself. Therefore, the counselling session on vocational training consists of intensive advice, recommendations and guidance on the job seekers' environmental factors, the optimality of the training field selection, and the details of the job seeking plan. Through this process, a training plan is prepared for each individual.

**Table 3.2 Comparisons of the previous jobseeker training system and the Vocational Skills Development Account System**

	<b>Previous jobseeker training</b>	<b>Vocational Skills Development Account System</b>
<b>Support system (Flow of training costs/benefit)</b>	Government → Training agencies → Trainees Financial assistance is provided for the training agency to cover training costs.	Government → Trainees → Training agencies Financial assistance is provided to trainee to cover training fee.
<b>Training entity</b>	Limited number of training entities	Multiple number of training entities
<b>Training period</b>	6 months or 1 year (flat period set by the training entity)	Periods of various lengths (trainee may select various short term programmes deemed appropriate)
<b>Counselling</b>	Not sufficient	Counselling must be received from the counsellor at the Job Center upon issuance of a Vocational Skills Development Account
<b>Method of support</b>	Limits on frequency of participation (3 times)	Cap set on limit to financial assistance (KRW 2 million)
<b>Trainee's expenses</b>	None	25 to 45 per cent
<b>Calculation of training fee</b>	Based on the standard cost of training the government has prescribed for each training programme	Based on the prices at the training market

With the adoption of the Vocational Skills Development Account System, in the case of 2009, the first year in which it was implemented, the training programmes became

modulated, with the average training period per trainee at 2.7 months, a two-fold decrease compared to the 5.1 months of the previous jobseeker training system. This was due to the fact that trainees enrolled in only necessary programmes, achieving the effect of preventing inefficiency. Moreover, in 2009, KRW 280 billion was injected into the existing jobseeker training programmes to provide training to 119,000 persons. However, only KRW 57 billion was injected into the training programmes under the voucher system, with trainees numbering 116,000 persons; a smaller budget was used to provide training opportunities to many people.

### ***Work-net***

In order to strengthen employment services, it is necessary to provide abundant and accurate information on recruiting companies to jobseekers as well as information on jobseekers to recruiting companies. Subsequently, the Korean government has strengthened the function of Work-Net, a public job information network that conducts services such as online job matching. Through the Work-Net, the function of providing jobs at SMEs has been particularly emphasized.

### **Expansion of online employment services**

For the development of employment services, the Korean government strengthened the offline employment services in 2005. It simultaneously pursued the task of strengthening the role of Work-Net online. Subsequently, it deployed Labour Market Analysis System (LaMAS) which could comprehensively provide information to jobseekers from the three major job information networks – Work-Net, Vocational Training Information Network and Employment Insurance Information Network. It also built Job-Net, which comprehensively provided job search information from public and private job portals. Efforts were also made to strengthen the function of providing recruiting information and job information customized to each group, such as youths, the elderly and women.

From 2009, the soft matching technique was adopted to facilitate the matching of recruiters with jobseekers on Work-Net. Useful information in large quantities could be provided to jobseekers and recruiters, with information matching 100 per cent of job search conditions, and job information being provided in the order of those with similar wages, fields and work conditions. An “online hire service” system was also built and managed, providing a direct venue for matching of jobseekers and recruiters online.

### **Measures to find employees for SME vacancies**

Given the constant co-existence of the problem of unemployment (especially of youths) and the difficulty of SMEs in finding workers is likely due to the fact that SME recruitment information is not being well circulated through Work-Net, the Korean government has strengthened the function of Work-Net in providing information on job vacancies at SMEs since 2009.

Consequently, a survey was conducted on the major industrial sites, and a special recruitment registration period was provided. Ongoing recruitment information on

Work-Net was also used, to eventually build 290,000 databases on vacancies at SMEs in 2009. Recruitment information continued to be identified, with 500,000 SME vacancy databases built on Work-Net as of the end of 2011.

The SMEs whose job vacancies were thus announced were selected as priority companies for assistance. The Job Centers have since provided intensive support, holding “Job fairs” at which jobseekers are connected to SMEs with job vacancies, and accompanying jobseekers to interviews.

## 3.2 Employment policy response to youth

Since 2003, the Korean government has established and implemented measures to counter youth unemployment. This has led to short term achievements, such as stopping the rapid rise in youth unemployment due to the economic crisis. However, fundamental improvements in employment have been lacking, with increased job mismatching resulting from the increasing number of the highly educated and a delay in university restructuring. The Korean government implemented the two “Making of Tomorrow for Youths” projects in 2010 and 2011, through which more job opportunities were given to youths through the expansion of the private sector’s job creation ability. Assistance was also provided to strengthen youth vocational competitiveness so that they could more independently search for and solicit jobs. The strategy was to provide long-term support with the goal of increasing the number of sustainable jobs in the labour market.

### 3.2.1 First project

The first “Making of Tomorrow for Youths” project presented specific jobs by sector to youth groups, and focused on developing human resources with competencies demanded onsite by industry. The first project announced in 2010 consists largely of two policies – youth employment, and assistance in transition from school to workplace.

#### ***Job creation for youths:***

(1) Assistance to encourage creative challenges

- Youth social entrepreneur programme (4,000 jobs for youth): Its aim is to create an environment where young women and men are encouraged to set up sustainable social enterprises by themselves.
- Assistance for establishment of start-ups and stimulation of creative employment: Assistance is provided for programmes and infrastructure (space, facilities, equipment) so that young people can engage in creative activities on and off campus for the opening of businesses.



(2) Pre-emptive increase in staff at public institutions

- The public sectors are taking lead in increasing youth employment.
- Staff increase in government subsidized research institutes, national university hospitals, the energy sector including nuclear energy, etc

(3) Strengthened connection between internship and full-time jobs: The youth internship programme was encouraged and the possibility of internships leading to full-time jobs was increased. (37,000 internships)

(4) Promotion of employment overseas: Taking into consideration conditions such as recovery of the global economy and increased global competitiveness of domestic youths, overseas employment has been encouraged. Overseas employment and intern programmes were diversified and the maintenance system was reorganized. The overseas internship programme run by the Ministry of Education, Science and Technology was expanded.

(5) Growth of SMEs together with large companies, expanded job-sharing

- Establishment of partnership for development of quality human resources between SMEs and large companies, growth of competitive SMEs leading to high quality job creation.
- Expansion of the inter-generational job sharing model to increase job opportunities for youths.

***Strengthened transition from school to workplace:*** Through school education and vocational training that suits industrial demand, “competent young workers” shall be nurtured.

(1) To form conditions in which the university can independently hold responsibility for the employment of its graduates,

- The university evaluation system was improved from the perspective of industry: The number of departments subject to evaluation was increased in stages, while the evaluation period was cut (previously on a 3 year basis, but now 2 year basis).
- More substance was instilled in university announcements regarding student employment: A survey on newly employed students was first conducted, with a separate survey on those that were maintaining their jobs.

(2) University graduates (or expected graduates) to be developed into quality on-site human resources that met industrial demand.

- A job academy was established in which young jobseekers such as college students and graduates could enrol in systematic programmes led by the demand-side (companies, industries). After completing the course, they would go on to internships and then to full-time jobs.

(3) Promotion of employment of graduates of specialized high schools



### 3. Employment Policy and Institutional Reform towards More Active Measure

- Specialized high schools with high employment rates and employment support systems would be designated and run as “employment leaders”.
- Support would be provided for military service exemption so that students could continue to work after graduating from high school (graduates of specialized high schools could delay military service for four years after the time of graduation)

(4) Support for youth that have dropped out of school to try again

- Management of vocational training schools: payment of allowance (KRW 300,000) for self-subsistence during training period. Individualized cultural education, career guidance, and employment intermediation.

The first project was implemented with focus on providing specific job opportunities to young men and women and developing human resources with capabilities demanded by industry.

### **Box 3.1 Open Employment Society**

With severe focus on educational background and an increase in university graduation rates resulting in rising private tuition costs and greater incidence of highly educated persons working at unsatisfactory jobs, job mismatching has become a serious issue. In order to build a society focused more on competency than on educational background, the government has provided various measures such as increased job opportunities for high school graduates in the public and private sectors, improved employment conditions, and intra-organization movement based more on performance and ability rather than seniority.

#### ***Priorities***

- School: to support high school graduates to develop varied careers
  - i) establishing of system on career guidance by experience, ii) strengthening competence in finding jobs
- Labour Market: to develop a hiring system based on competence and a human development system which gives a fair chance to everybody
  - i) encouraging to hire high school graduates more, ii) spreading a recruitment practice that employers hire people based on job capacity, iii) disseminating a management system that wage increase and promotion are depended on performance and competence, iv) creating favourable conditions on work to school
- Society: Developing a performance oriented culture in the society
  - i) better treatment to professional engineers and technicians, ii) developing a system with better linkage between career and diploma

#### ***Strategies***

- To make private sector follow the new direction voluntarily through public sector's initiative
- To support creating best examples and foster young frontiers

#### ***Achievements***

- The Korean government provided an investment tax credits of up to KRW 20 million for the company every time it recruited graduates from technical high schools or specialized high schools since January 2012. The maximum tax credit was KRW 15 million until 2011.
- Job centers signed MOUs with companies and high schools in order to provide essential employment services such as holding job fairs, providing vocational training, internship matching and so forth. 948 organisations were made MOUs with job centers as of 15 February 2012.
- The Korean government helps companies to improve a current recruit practice based on educational background. To do so, it will develop an effective method of employee performance evaluations.
- While only specialized high school graduates was eligible to postpone the date of enlistment

in the army, the same benefit is given to normal high school graduates so that they can get jobs before they join in the army.

- Small portion of specialized high school graduates could be selected to those who work in the industry instead of their army duty. The quota is increased to 1,351 people for specialized high school graduates among total 7,000 people whose army duty is exempted.
- If an employer makes special arrangement with a university to send his/her employees who graduated from high schools to related department in the university for training, the government reimburses the employer's training cost as of January, 2012.
- Some universities have given an opportunity to employees of high school graduates to have a limited competition among themselves in the entrance exam. The number of the universities was expanded from 7 in 2011 to 23 in 2012.
- The government organized 'Group of On-Site Professors' among the professional engineers and technicians who do not have high level academic degrees to recognize their professionalism and give them chances to teach university students.
- If an employee works in a specific field for a certain period, his/her working career can be approved as an academic credit of a related study by universities. Through this new system, employees can take credits which are necessary for academic degrees without attending the classes in the universities.
- The government also took a necessary action to vitalize 'lifelong learning account system' to encourage people to develop necessary skills and knowledge after their academic studies.
- The number of high school graduates recruited was increased during recruitment of public servants. 20 per cent of new recruits at public institutions would consist of high school graduates.

#### 3.2.2 Second project

The second project announced in 2011 focused on allowing young workers to have sufficient opportunity for self-development and renewed attempts at employment through education and training once they entered the labour market. Rather than attempting direct job creation (as was done in the first project), the second project is based on expanding education and career paths so that youths can grow into talented human resources customized to the needs of the labour market. Major programmes include providing venues for learning about the workplace; improvement in employment service infrastructure to alleviate job mismatching; increased decent job opportunities for graduates of regional schools; increased start-ups for youth entrepreneurs; and large scale recruitments by venture companies.

##### ***For the workplace to be a learning space:***

(1) More education and training institutions within companies were established, and a variety of education and training opportunities were given.

(2) Expanded Quality of Working Life (QWL)<sup>20</sup>: The "QWL Valley" invites universities

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<sup>20</sup> Quality of Working Life (QWL) is a project that transforms industrial sites into a space in which youths

and research centres to be built within the industrial site, and is equipped with various welfare and convenience facilities. Various cultural programmes are run to attract youths and transform the industrial site into a place for work, learning, and fun.

(3) Increased connection between companies and universities.

(4) Re-organization of vocational training and training programmes to suit needs of industries onsite.

(5) National technology certification provided to those that completed the newly structured training programmes.

***Reduced mismatching of jobs for young people:***

(1) Deployment of comprehensive job information network

- Upgrade of youth-exclusive Work-Net (“Job Young”).
- Deployment of comprehensive public-private job information network.
- Reorganization of work-training-certification classification system: integration of information through interconnection of Work-Net with training database (HRD-Net), certification database (Q-Net).

(2) Increased solicitation of job offers to youths from SMEs

- Increased employment subsidies to youth intern participants – KRW 1 million provided to those in manufacturing/production positions.
- Strengthened employment support to vulnerable youth groups: support for vocational training to children of households receiving basic living allowance. Increased number of internships for the non-employed with non-university degrees (from 10,000 in 2010 to 12,000 in 2011).

(3) Strengthened vocational training and career guidance at schools

- Promotion of career related programmes in elementary, middle and high schools.
- Support for education and training to students studying for employment via industry-academia partnership.

***Increased social advancement opportunities for students from regional universities***

(1) Increased job opportunities in the public sector for students from regional universities

- Preferences are given to students from regional universities in recruitments by public

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would like to work in.

institutions and such records shall be reflected in the assessment of the public institutions.

- Increased job opportunities for graduates of regional universities, through the relocation of public institutions to provinces.

(2) Increased job opportunities for students from regional universities at companies

- Holding of “Recruitment Conventions” by large companies for students of regional universities.
- Hiring culture focused on educational background encouraged to move to focus on job performance (practice of hiring interns full-time).

***Increased venture start-ups by youths:*** Intra-university venture start-up rates are to be reflected in the criteria for evaluating university subsidized projects, while projects to support intra-campus start-ups are expanded (20 in 2012).

### 3.3 Employment policy response to non-regular workers

Non-regular workers are experiencing vulnerable working conditions as compared to regular workers due to low wages, inability to subscribe to social insurance, and job instability. As discussed in Section 2.3, the size and share of non-regular workers in Korea has been increasing consistently over the long term. Nor has there been much improvement in qualitative aspects, such as job discrimination. To resolve the problem of non-regular workers’ job instability, the “Act on Protection of Temporary and Part-Time Workers” was enacted in 2007.

#### 3.3.1 The Act on Protection of Temporary and Part-time Workers

The Act on Protection of Temporary and Part-time Workers stipulates that the period in which an employer can use a temporary worker is limited to within two years, whereas when the duration of employment exceeds two years, the employer is obliged to convert the worker to an “unlimited contract” in which services are provided with no specific contract period. With certain exceptions, temporary workers who have worked for more than two years shall be considered as workers with no set contract period. The purpose of this is to promote the job stability of temporary workers. Moreover, the employer cannot mistreat non-regular workers relative to regular workers in terms of wages and other working conditions without rational cause. In case a worker has been subject to unfair treatment, an appeal can be made to the Labor Committee.

After enactment of this law, there were worries that the employment status of temporary workers would become more unstable. There were actual instances in which many lost their jobs altogether. As a result, on 4 February, 2010, an amendment was made to the Enforcement Decree of the same Act, in which the number of exceptions to the limit of two year employment of temporary workers was increased. The government also tried to resolve the negative aspects of the system of limiting the

employment period, which stemmed from the fact that non-regular workers were being terminated although they wished to continue working. It realized that there needed to be increased flexibility in human resource management. Taking such matters into consideration, it added exceptions to the two year employment limitation, while methods of improving the anti-discrimination measures for temporary workers was included and announced as part of national employment strategy. Currently, discussions are being held on this regard with labour and management groups through the Economic and Social Development Commission which is a national level tripartite organization.

### **3.3.2 Means of improving employment status of non-regular workers**

Other than institutional improvements, such as through legislations and amendments, the government is trying to improve the employment conditions of temporary workers through the strengthening of vocational development programmes and other measures. More specialized short-term vocational training programmes are being held for non-regular workers. In order to promote participation of non-regular workers that are constrained due to irregular working hours in these programmes, 26 training centres with modulated training programmes have been built and are operating on weekends and at night time during non-working hours. Non-regular workers also became eligible for 'Vocational Skills Development Account' and the maximum available amount has been increased from KRW 1 million to KRW 2 million, which means the opportunity to develop their vocational skills was improved.

In addition, to have the public sector take leadership in improvement of working conditions of non-regular workers, the government announced "Guidelines for Improvement of Employment Conditions of Non-Regular Workers in the Public Sector" in January 2012, which was drafted through the joint effort of related ministries. According to these guidelines, among services being provided by temporary workers in public institutions, those which have been provided continuously for more than two years are subject to analysis to judge whether the particular work position is sustainable and requires full time effort. If so, the position of the relevant temporary worker is converted to an unlimited contract-based position. A decision was also made to improve the welfare point system<sup>21</sup> and allowance payment system, which have been considered as key examples of discrimination regarding welfare benefits to non-regular workers versus regular workers in the public sector.

In their second year, part-time workers or temporary workers would be provided KRW 300,000 worth of welfare points per worker. A bonus of KRW 800,000 to 1 million per year would be paid, according to work performance. Moreover, measures were taken in order to protect outsourced workers involved in menial labour such as cleaning, who receive almost no benefits at all. The market price for their cost of labour formed in the labour market would be guaranteed. During the bidding process, an evaluation will be conducted on all the categories regarding protection of the job conditions of

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<sup>21</sup> This is a system to promote workers' welfare. Each year a certain number of points are given to each individual, which he/she can use as cash to purchase clothes/books, and medical services.

outsourced workers. A guarantee was also made that the worker would continue to perform the service unless special circumstances arose. When hiring regular workers, any past experience as a non-regular worker would be recognized as career experience and not be viewed in a prejudicial manner.

The Korean government has supported a third to a half of the social insurance premium for low income workers who earn less than KRW 1,250,000 monthly in less than 10 employee-company and its employers since 2012. The coverage of industrial accident compensation insurance has also been expanded to delivery workers in the parcel delivery service who are one of typical non-regular workers through amendment of the related legislation as of May, 2012. Furthermore, the government took a measure to help non-regular workers' housing problem. For example, 'National Rental Housing' program is now providing support to non-regular workers when they select new residence. The loan system for stabilization of employees' livelihood has been changed to give priority to low income employees such as non-regular workers. They can borrow money from 'employees' livelihood stabilizing fund' for their children's tuition or urgent living expenses.





# NATIONAL GOVERNANCE TO STRENGTHEN THE COORDINATION OF EMPLOYMENT POLICIES

## 4

### 4.1 Increase in budget allocation for jobs

Since the global economic crisis, the Korean government has expanded its budget for jobs and continued to expand fiscal investment in job creation.

Until 2010, however, there was no separate management of a jobs budget. From 2010, jobs were added as a type of budget for separate management. The appropriated amount has also been consistently increased. The jobs budget rose from KRW 8.9 trillion in 2010 to KRW 9.6 trillion in 2012 (Table 4.1). The budget providing direct government support to job creation for vulnerable groups was also reorganized, with the goal of hiring 560,000 workers in 2012.

**Table 4.1 Trends in the increase in jobs budget**

	2010	2011	2012
<b>Jobs budget (billion KRW)</b>	8,902.8	8,957.8	9,627.9

*Source:* Ministry of Strategy and Finance, Budget Overview

The jobs budget consists of a budget for various fiscal support programmes for labour market including direct job creation projects, employment service infrastructure expansion, vocational training, unemployment benefits, etc. It also includes social insurance support for low-waged workers. In Korea, there is a great deal of SOC investment that contributes to job creation, other than the aforementioned budgets, which is why the size of its budget directly and indirectly related to jobs is quite large.

The Korean government has named the 2012 budget as the “Jobs Budget,” with job creation placed as the top priority in budget appropriation. With increased interest in jobs, and an awareness that work is the key link to welfare and economic growth, efforts are being made to establish a virtuous cycle of work-growth-welfare. For this purpose, the basic tenet of the 2012 budget appropriation was to prepare for the future through job creation and customized welfare, promotion of economic activity, green growth and human resource development.

More specifically, in order to maintain and increase jobs for vulnerable groups such as low wage workers and youths, social insurance support for low income workers and increased support for “Employment Success Package Programmes” have been newly established.

In addition, the government has made a continuous effort to make public spending for job creation more efficient. In July 2010, the government divided all the job creation projects which were being implemented by the ministries by six categories and integrated similar or overlapped projects as the first step, which resulted in decrease of the project numbers from 202 to 134 in 2011. As the second step, the government did the same thing to the projects done by the local governments in August 2011.

## 4.2 National governance to strengthen the coordination of employment policies

With a sluggish job market since the Asian financial crisis, there has been heightened awareness in Korea that an approach dependent on specific employment programmes administered through a line ministry alone is limited in solving the problem. It has become necessary to establish an employment strategy at the national level, which encompasses all pertinent ministries and the private sector and can be implemented in a consistent manner. Subsequently, the Korean government changed in the name of its employment related ministry from Ministry of Labor (MOL) to Ministry of Employment and Labor (MOEL) and entitled the ministry to the coordination of employment policies (see Box 4.1).

### **Box 4.1 Change in the name of Korea’s employment related ministry and strengthening of functions**

In Korea, the Ministry of Labor has implemented laws, policies and projects regarding the labour market. Even after the 1997 Asian financial crisis, it maintained its role as the Ministry of Labor, with only some additions to its primary functions, such as the establishment and implementation of measures to reduce unemployment. However, since the 2008 global economic crisis, in order to increase the efficiency of employment policies, a general consensus was formed in response to a need for a framework that would coordinate the various policies regarding jobs that were being implemented by each ministry. In July 2010, the Act on Government Organization was thereupon revised, and the Ministry of Labor was changed to the Ministry of Employment and Labor. One of its key functions was the “coordination of employment policy”.

A National Employment Strategy Meeting has also been established under the chairmanship of the President in Korea in order to deploy a coherent government-wide national employment strategy. An Employment Policy Coordination Meeting presided over by the MOEL has also been set up with the purpose of systematic monitoring and management of the policies announced by the National Employment Strategy Meeting.

In addition, a Public-Private Job Creation Consultative Committee has been established jointly between the private sector and government, so that government may build a cooperation system with the private sector that plays a leading role in job creation. Immediately under the MOEL, On-site job+ Team has been formed for onsite coordination, which means that government delegates can visit workplaces in person to assess the difficulties that companies and jobseekers face in regard to employment issues.

##### **4.2.1 National Employment Strategy Meeting**

In 2010, the Korean government set up a National Employment Strategy Meeting to establish a comprehensive, government-wide plan to stabilize employment and create more jobs. For job creation to be the core task of all policies, an employment strategy accompanied with structural improvement of the overall economy has become necessary. Therefore the goal of this Meeting is (i) to reorganize existing policies and systems to make them employment-friendly, meaning they enable maximum increase in the total number of jobs within a sustainable range; (ii) to resolve the quantitative and qualitative mismatch in the labour demand and supply through the development of skilled workers that meet the needs of companies; and (iii) to pursue restructuring for the promotion of labour market efficiency, such as job stability.

##### ***Structure***

The President presides directly over the National Employment Strategy Meeting, and members of the Meeting consist of heads of each government ministry, political parties and related government institutions, such as the Bank of Korea and the National Economic Advisory Team, as well as the Presidential Policy Coordinator, Chairman of the Presidential Council for Future and Vision, National Policy Planning Chief, and Presidential Economic Advisor for Social Sector. For each agenda, there is broad participation from related fields, including the heads of research institutes and private experts.

##### ***Operation***

Meetings are held at least once a month as part of the Emergency Economic Planning Meetings, in principle on the Thursday of the week when the monthly job trends are announced. The Meeting was originally to be operated for a limited time of one year, but is still active presently, although not on a regular basis; it convenes only when major labour market issues arise.

Through reflection of onsite demand, meeting agendas are selected in addition to the job creation tasks included in the working plans of each Ministry. Short and long term coping measures in all employment related areas, including economy, industry, labour, education and welfare, are covered in the agenda. Discussions are held on specialized job creation measures according to class and type of demand, as well as on policies aiming for job creation through adjustment of regulation and improvement of legal system.

To facilitate the effective implementation of job creation strategies that were part of the discussed agendas, regular monitoring and assessments are conducted, and when necessary, follow-up measures are taken. Each ministry makes a monthly review of the progress of their respective agendas, with a Task Force set up for three areas (real economy, social security network, training and education), which review the policy measures of the related ministries. The Prime Minister's Office evaluates the job creation measures of all ministries, and reports the results to the National Employment Strategy Meeting. An intensive control system consisting of three stages is maintained. When law revisions are required as a result of the job creation strategy, support is provided to expedite the passing and institutionalization of the new bill.

#### **Box 4.2 National Employment Strategy 2020 for the Harmony of Growth, Employment and Welfare**

The Korean government released the National Employment Strategy 2020 for the Harmony of Growth, Employment and Welfare, aiming at increasing the employment rate from about 63 per cent at the end of 2009 to at least 70 per cent by 2020. The goal is to create 240 thousand jobs annually for the next 10 years.

The National Employment Strategy consists of four main strategies: (i) pursuing employment-friendly economic and industrial policies; (ii) creating fair and dynamic workplaces; (iii) increasing the use of young, female and aged workers and strengthening skill development; and (iv) redesigning the social protection system into the one encouraging welfare-to-work transition.

In order to reach these four main strategies, the Korean government has set five tasks that will have a great impact on job creation. The five tasks are as follows:

1. **Local governments-and private company-initiated job creation:** Recognizing the importance of the collaboration from local governments and private companies in creating decent jobs, the government plans to set up a consultative body to address job-related issues. Also, the government will announce an annual list of top 100 companies which contribute to promoting job creation and award them for their accomplishments. The policies concerning budgeting, taxation, industry and public procurement will be implemented in an employment-friendly manner so that economic growth may lead to job creation, and, as a follow-up action, employment impact assessment will be extended for major national policy projects.
2. **Law and institutional improvement for a fair and dynamic labour market:** The government, with regard to the practices of in-company subcontracting, plans to conduct a survey and, based on the survey outcome, detect violations and guide the offenders on direct employment. The 40-hour workweek expands to apply to companies with fewer than 20 employees. The maximum period for which dispatched workers can be employed will be adjusted.
3. **Expansion of flexible workplace programmes to promote work-life balance:** The Government plans to support reconciliation of women's work and family, by increasing permanent (on an indefinite term contract) part-time jobs. It plans to promulgate the law to promote the demand for part-timers and protect them.
4. **Promotion of older workers' employment:** In preparing for an aging society, the

#### 4. National Governance to Strengthen the Coordination of Employment Policies

government will revitalize the wage peak system, where wages will be cut at a certain age in exchange for guaranteeing employment.

5. ***Creation of job opportunities for recipients of basic livelihood security:*** The government will help recipients of basic livelihood security escape from the poverty trap by providing employment opportunities.

**Figure 4.1 Structure of the National Employment Strategy Meeting Task Force**



The National Employment Strategy Meeting consists of Task Force Teams in three areas. The head of each Task Force is to be at the vice-minister level, and with the participation of government and private sector experts, discussion topics are identified, inter-ministry communication is coordinated and progress is monitored. A pool of employment experts in each level of the private sector is formed, and among them approximately ten are selected to manage a full time policy advisory group (see Figure 4.1).

A total of eleven meetings have been held by the National Employment Strategy Meeting as of April 2012, with discussions held on short to long term measures in all areas regarding jobs, such as economy, industry, labour, education and welfare. One of the main results of the meeting was “National Employment Strategy 2020,” the current national employment policy in Korea (see Box 4.2).

#### **4.2.2 Employment Policy Coordination Meeting**

The Employment Policy Coordination Meeting was established for the purpose of systematic management of national employment strategy tasks and the strengthening of cooperation among ministries and central and local governments in the pursuit of job creation projects. After the adoption of a national employment strategy is confirmed, each ministry develops policies based on its unique area of responsibility with the goals of job creation, resolution of job mismatch, and human resource development. Local governments pursue various job creation projects, based on the support of the central government or with their own financial resources. Subsequently, the Employment Policy Coordination Meeting provides support for job creation efforts by resolving issues such as the overlapping of tasks among the central and local governments in the pursuit of job creation projects and acts as a comprehensive discussion channel that efficiently coordinates the communication process among those involved.

##### ***Structure and operation***

The Employment Policy Coordination Meeting is chaired by the Minister of Employment and Labor and consists of the vice-minister of related ministries, such as the Ministry of Strategy and Finance, Ministry of Education, Science and Technology, Ministry of Knowledge Economy, Ministry of Health and Welfare, and Ministry of Gender Equality and Family. Other members include the head of the Small and Medium Business Administration and the vice-mayors and vice-governors of the sixteen cities/provinces. The Presidential Secretary for Employment and Labor Affairs, Prime Minister’s Office Director for Social Integration Policy, and Standing Members of the Economic and Social Development Committee also participate. Regular meetings are held once a quarter in which representatives of the ministries and all municipalities participate, while ongoing meetings are held for each agenda upon necessity.

Agendas include the government’s job creation policies as well as issues raised in the private sector and on business sites to improve the efficacy of job creation efforts. The Employment Policy Coordination Meeting collects opinions from a variety of sources and builds a communication channel between the government and business



organizations to conceive methods of cooperation. The efficacy of policy implementation is increased through this diverse feedback.

As of April 2012, the Employment Policy Coordination Meeting has held six meetings since 2011 to discuss a variety of issues.

### ***Outstanding Issues***

The Employment Coordination Policy Meeting is significant in that related ministries and local governments can gather together to share and discuss labour issues, and directly coordinate employment policies. Upon each meeting, recommendations for MOEL and other agencies are received from each represented institution, with MOEL performing the role of mediating differences in opinion. However, the scope of agendas discussed to date have been limited, with MOEL usually raising the agenda and low level of participation of other ministries in the discussions.

As a result, from 2012, the agendas of MOEL are to be more balanced, encompassing a variety of sectors, while presentations by research institutes on mid to long term tasks are highly encouraged. Partnership with related consultative bodies are also to be strengthened, with active identification of agendas regarding tasks that require communication and cooperation among ministries and central and local governments, and reports made to related consultative bodies according to each item (such as the National Policy Coordination Meeting, Crisis Management and Response Meeting).

#### **4.2.3 Creating Public-Private Partnerships to create jobs - Public-Private Job Creation Consultative Committee**

As a consultative body for the building of a cooperative system between government and private sector, MOEL is operating a Public-Private Job Creation Consultative Committee. In order to gather a driving force in job creation, it is essential to form a consensus with the private sector and attain its cooperation as it is the main actor in the job creation effort.

### ***Structure***

The Public-Private Job Creation Consultative Committee consists of delegates from the five major business organizations (Korea Chamber of Commerce, Federation of Korean Industries, Korea International Trade Association, Korea Federation of Small and Medium Businesses, Korea Employers Federation), and Minister of Employment and Labor. Government ministries related to the job creation effort such as Ministry of Strategy and Finance, Ministry of Public Administration and Security, and Ministry of Education, Science and Technology can be participated if related issues are brought up. The Committee is chaired by the Minister of Employment and Labor. In principle, meetings are convened once a quarter, but can be held at anytime depending on demand.



### ***Operation***

During the meetings of the Public-Private Job Creation Consultative Committee, discussions are held on the development of public-private joint cooperation projects, the role of the business organizations in job creation, and policy tasks. The government leads discussions mostly on labour market trends and major employment and labour market policies, while business representatives present issues regarding public-private cooperation for job creation, difficulties that businesses face in job creation, and further tasks that should be pursued for public-private cooperation.

Working level discussions are held to strengthen the policy coordination. By breaking down discussions into categories, meetings are held by industry and sector for each agenda, so that more intense discussions can be held on topics such as vulnerable industry groups, reduction of extended working hours of the automobile industry, the role of five major business organizations, etc. Ongoing interactions between committee members enable detail sharing regarding the coordination between government and business, with discussions on public-private job creation efforts and the raised agendas.

As of April 2012, the meetings of the Public-Private Job Creation Consultative Committee have been held on two occasions since 2011.

#### **4.2.4 On-site support for job creation - On-site job+ Team**

For customized measures in response to on-site needs, MOEL began providing direct support at business sites by setting up On-site job+ Team, an on-site group to support job creation, in 2011.

### ***Structure and operation***

On-site job+ Team has been set up at the headquarters of MOEL and takes command of tasks in progress. As part of the central government, it conceives ways to resolve problems and barriers. At local level, on-site support teams are established and placed immediately under the head of each Regional Employment and Labor Office. Staff of Job Centers and Labor Inspectorates in the on-site support teams provide on-site employment support, and take full responsibility for coordination and command of all such supporting activities. In addition, due to the need to assess repercussions on the local community, as well as the everyday difficulties that arise in the job creation effort, “business sites that require extra assistance” are selected, and delegates are dispatched accordingly in order to maximize support.

### ***Outstanding issues***

In 2011, representatives from 47 Regional Employment and Labor Offices visited approximately 16,000 business sites and identified approximately 12,000 issues that were acting as bottlenecks to job creation efforts by the central and local governments. Through internal reviews and discussions among related ministries, about 7,000 issues were resolved (yielding a problem solution rate of 61.7 per cent). In particular, labour demand amounting to 32,000 persons was identified in approximately 6,000 businesses, resulting in the employment of 15,000, including high school graduates.

MOUs were established among the Job Centers, companies and schools, and assistance was provided to resolve employment issues, such as through consulting services and improvement of work environments.

To make these teams more efficient, MOEL is considering the building of a system to resolve the core issues within each region, and to make active use of regional consultative bodies, such as Local Employment Forums.

## 4.3 Policies to facilitate job creation

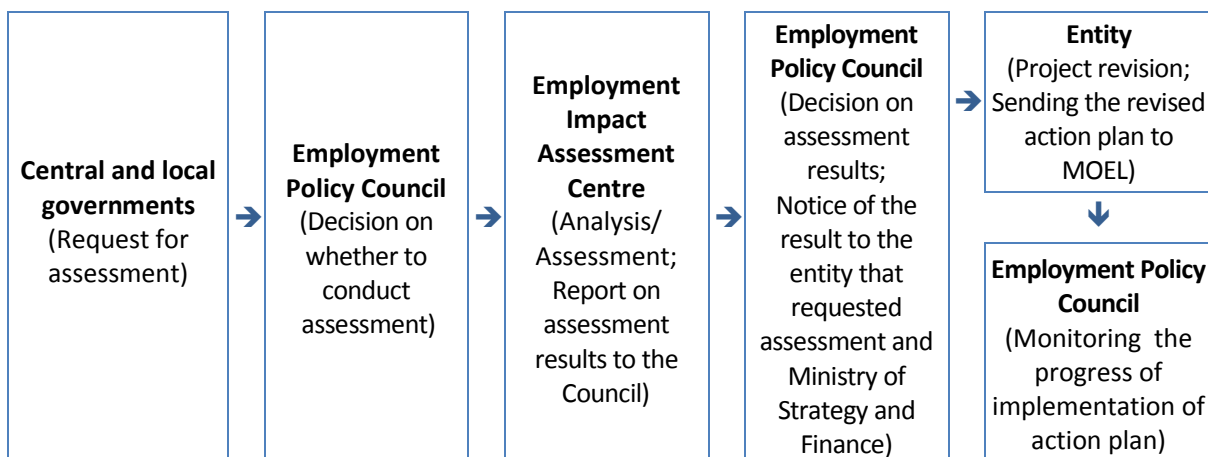
### 4.3.1 Employment Impact Assessment

In order to respond to the decline in potential economic growth and slow employment growth since the Asian financial crisis, the Korean government has established a system for assessing the impact of government policy on employment and to further encourage the establishment and implementation of job-friendly policies. The employment impact assessment system seeks policy alternatives for job creation by conducting quantitative analyses not only on employment policies that have a direct impact on jobs, but on important government policies and public projects in economy, industry and welfare to ultimately support the creation of more jobs. A preliminary study was conducted between 2006 and 2009 to lay the grounds for employment impact assessment. In 2009, legal foundations were put in place with the amendment of the “Basic Act on Employment Policy,” ensuring that policy impact on job growth would be analysed and taken into consideration upon establishment of policies by the central and local governments. In 2010, an employment impact assessment trial was conducted on seven major projects of each ministry and local government. Based on this experience, employment impact assessments on government policy have been formally conducted since 2011.

#### *Process and methodology of employment impact assessment*

The process of employment impact assessment is conducted in the following order: (i) selection of assessment target; (ii) analysis/assessment; and (iii) acceptance of feedback from the advisory committee (see Figure 4.2).

**Figure 4.2 The employment impact assessment process**



#### ***Procedure and criteria for selection of project subject to assessment***

Projects subject to employment impact assessment are policies that have a significant impact on employment, as well as economic and social policies that seem to have a direct and indirect impact on job creation. Employment impact assessments are usually conducted with the application of the project entity, such as the central and local governments. However, in special cases, the Employment Policy Council may make a request for assessment. After such applications are made, those that have been selected by MOEL pass through the Employment Policy Council, and are finalized as the subject of assessment.

Among the subjects of assessment, there are priority assessment subjects for whom assessments have been requested by government ministries or local municipalities according to the Basic Act on Employment Policy. They may also include tasks that have been recommended by members of the Employment Policy Council, or large-scale national projects of a size of more than KRW 50 billion. Policies that have a significant impact on the economy; tasks that can have significant employment effects through future policy improvement; policies that can have an impact on job creation, such as corporate investment, R&D support, employment related tax systems, are all considered as assessment priorities by the Employment Council.

#### ***Analysis and policy recommendations***

The “Employment Impact Assessment Centre”<sup>22</sup> conducts analysis of the employment impact of the project under study and makes policy recommendations aimed at job

<sup>22</sup> The Employment Impact Assessment Centre is designated by a Review Board (chaired by the Director of Employment Policy, and consisting of four outside experts and two internal members) through an open competition among government-subsidized agencies and private institutions, so that it may conduct the task of employment impact assessment on an ongoing, full-time basis. The designated assessment agent conducts the task for two years. Each year the contract is renewed after evaluating optimality, but the contract may be terminated by invoking special causes, such as budget changes. As of 2012, the Korea Employment Information Service has been selected as the Employment Impact Assessment Centre.

creation. The analysis is focused on the policies' relevance to the labour market and impact on employment (Table 4.2).

**Table 4.2 Analysis of Employment Impact**

	Description	Analysis methodology
<b>Relevance to employment</b>	<ul style="list-style-type: none"> <li>• Relevance to employment and labour market</li> <li>• Practicality of goals regarding employment</li> <li>• Nature of jobs created upon implementation of policy</li> <li>• Spill-over effects of the project to job creation in other industries</li> </ul>	<ul style="list-style-type: none"> <li>• Surveys, interviews</li> <li>• FGI (Focus Group Interview)</li> </ul>
<b>Employment impact</b>	<ul style="list-style-type: none"> <li>• The maximum amount and characteristics of jobs that can be created through the project</li> <li>• Amount and characteristics of jobs that can actually be created directly and indirectly through the project</li> <li>• Changes in the labour market structure and number of jobs expected or occurring upon implementation of the policy</li> </ul>	<ul style="list-style-type: none"> <li>• I-O model analysis</li> <li>• PSM (Propensity Score Matching) model</li> <li>• CGE (Computable General Equilibrium) model</li> </ul>

Major policy recommendations are made as follows:

- Relevant policy factors that impact increase/decrease the number of jobs that are presented.
- Adjustments of sub-project budgets to maximize employment effects are proposed, as well as adjustment of overall budget to heighten the employment effect.
- Policy alternatives are presented that may create more jobs.
- Policy recommendations to increase positive effects on job creation are suggested.

### ***Application of Employment Impact Assessment Results***

The results of the employment impact assessment are delivered to the project entity, such as ministries and local governments, and Ministry of Strategy and Finance, after passing the review of the Employment Policy Council. The project entity sets up an action plan pursuant to the assessment results, which is sent to MOEL. The progress of implementation of the action plan is monitored at least once a year, and reported to the Employment Policy Council. The Ministry of Strategy and Finance uses the assessment results as reference data in future budget allocation.

#### **4.3.2 Local Job Creation Strategy Notice System**

In 2010, MOEL adopted the "Local Job Creation Strategy Notice System," which supported local governments so that job policies that suited the needs of the local economy, industry and labour structure could be established and implemented. Through the "Local Job Creation Strategy Notice System," the local government establishes its own job creation targets catered to the characteristics and situation of

the region. Employment policies that can meet these objectives are presented to community residents, and the central government conducts a review and assessment in order to provide support.

##### ***Process and Methodology***

###### **1 Provision of tentative plan**

The local government proposes specific job creation targets to be pursued during the tenure of the current governor and presents a draft of policies that can be used to achieve these goals. In this process, the MOEL provides policy consultation well as assistance to the local government through a specialized institution so that effective employment targets and solution measures can be established.

###### **2 Finalization of policies and announcement**

The preliminary job targets and employment policies are finalized in job related forums consisting of members of local labour, management, government, citizens groups and employment experts, such as the Local Employment Council, Local Labor-Management-Citizens-Government Council, and Local Employment Forum. Confirmed goals and policies are announced to community residents through the local newspaper, broadcast, or internet.

###### **3 Review and assessment**

Each year, MOEL conducts a review of whether the goals of the local government have been achieved while also looking at the progress of the implementation of the announced policies. It also provides ongoing support to improve the effectiveness of the policies, such as having professional consulting agencies to find means for improvement and adjustment. In addition, MOEL holds a yearly competition on “Local Job Brands,” for the purpose of encouraging the local government to pursue regionally-customized job creation projects. Through this competition, the suitability and effectiveness of the projects implemented by the local government are evaluated, and various benefits are extended to top performing municipalities, such as the grant of awards and preferential budget assistance.

##### ***Progress***

Since adopting this system in July 2010, 227 out of a total of 244 municipalities<sup>23</sup> have as of April 2012 participated in the 2011 project. The result has been a consistent increase in the number of local governments that implement regionally-customized job creation projects that suit the needs and nature of each region. Moreover, most local governments have expanded their job creation project budgets, while some have established new divisions dedicated to the pursuit of job creation or expanded existing

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<sup>23</sup> 244 municipalities in Korea consist of 16 principal level communities, such as a special city, metropolitan cities, provinces and a special self-governing province, and 228 municipal level communities, such as cities, counties, and districts.

organizations for such a purpose, effectively strengthening the necessary administrative bodies.

#### **4.3.3 Assessment system for labour market policies - Employment Insurance Assessment Center**

As a key means of active labour market policy in pursuit of workers' job stability and re-employment, Korea has implemented an employment insurance system with use of financial resources from the employment insurance fund. The Korean employment insurance system, adopted in July 1995, was expanded to cope with the two economic crises. The types of employment insurance programmes amount to 96, with the rise of government subsidy levels leading to continued increase in budget scale. However, there have been continued criticisms that there have not been enough assessments on the effectiveness of employment insurance programmes, and some programmes have had only a marginal effect. To improve the situation, the Employment Insurance System Development Committee of the Economic and Social Development Commission (a national level tripartite organization) agreed to build a full-time, ongoing assessment system for the employment insurance system and its programmes. Consequently, MOEL set up the "Employment Insurance Assessment Centre."

The Employment Insurance Assessment Centre performs functions such as (i) studies on improvement of the employment insurance system and re-organization of employment insurance programmes to cope with the social and economic changes; (ii) proposal of means of improvement of employment insurance programmes; and (iii) estimation of necessary financial resources for employment insurance and assistance for prior evaluation of new employment insurance programmes. The results of the assessment are used for restructuring and system improvement of employment insurance programmes, as well as annual establishment of employment insurance fund management plans.

Each year, MOEL conducts a review and assessment of each employment insurance-related programme. The results are used for improvement of the projects. The Ministry of Strategy and Finance is also notified of the results, which are reflected in the management of various government funds, as well as in the assessment of the performance of the funds.<sup>24</sup> The assessment of fund management performance is reflected by having those programmes that receive a rating of "less than satisfactory" subject to budget cuts the following year.

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<sup>24</sup> Assessment of fund management performance is based on Article 82 of the National Finance Act. The performance of the fund-based project is assessed, with the results reflected in budget appropriation and disclosed to the public and the National Assembly. It is a system of evaluation aimed at improving the transparency and efficiency of managing fund-based projects. A "Fund Management Assessment Team" consisting of private sector experts has been established within the Ministry of Strategy and Finance to perform this role.

The Korean government has made various efforts to create jobs, not only through direct measures such as employment programmes, but also through taxation, and various social and industrial policies.

## 5.1 Tax reform aiming for job creation

Tax reforms have been initiated in Korea in order to actively encourage job creation by private companies. These measures include (i) changes in the investment tax credit system; (ii) provision of tax credits to offset the burden of social security premiums created by employment growth for SMEs; (iii) provision of income tax credits for young workers that have been employed by SMEs; and (iv) revision in the Earned Income Tax Credit system.

### 5.1.1 Investment tax credits for job creation

In order to actively promote corporate investment for job creation, the Korean government has revised the existing “temporary investment tax credit system,” which provided a tax credit of up to 7 per cent across the board for corporate investment in facilities, to the “tax credit system for investments in job creation,” which provides tax benefits until the end of 2013 based on newly created employment, with the aim of encouraging investments for job creation. Details of the revisions to the tax system are as follows:

- (i) Basic credits of 3-4 per cent of the investment amount are provided.
- (ii) Additional credits of up to 3 per cent, pro rata to the number of increased employees, based on the condition of ongoing employment – KRW 10 million is provided per added employee. When the new employees are young workers, and graduates of technical/specialized high schools subject to vocational training, the cap increases to KRW 15 million and KRW 20 million per worker respectively.



### 5.1.2 Tax credits on social insurance premiums for companies that create jobs

For SMEs that increase employment, the Korean government has implemented a two-year tax credit system for social insurance premiums – approximately 10 per cent of total wages – which need to be additionally paid by the employer with the increase in employment. This will be effective for a limited time up until the end of 2013. The details are as follows:

- (i) Increase in insurance premiums due to employment of young workers is exempt in full amount, while
- (ii) Increase in insurance premiums due to employment of workers other than youths is exempt up to 50 per cent.

### 5.1.3 Encouraging employment of youth to SMEs:

For young women and men that are employed by SMEs, a system exempting 100 per cent of earned income tax for up to three years from the time of hire will be maintained until the end of 2013. This revision in tax law aims to actively encourage youth employment in SMEs.

### 5.1.4 Earned Income Tax Credits

The Target group of the Earned Income Tax Credit (EITC) has been expanded, and the level of benefits has also been elevated. The EITC in Korea is a wage-linked income support system that has been established to encourage work and family formation among low income households that satisfy certain conditions.

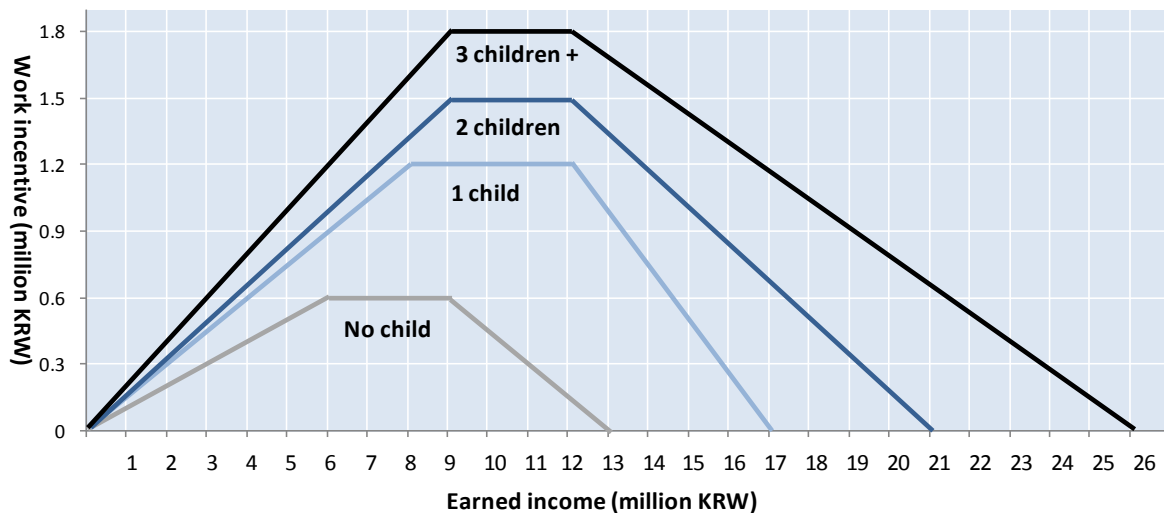
#### *Before revision of tax law:*

Targeting households raising children under the age of 18, up to KRW 1.2 million of earned income tax credits per year are provided to low-income households with a combined total income of less than KRW 17 million per year.

#### *After revision of tax law:*

- Households with no children can also receive earned income tax credits.
- By taking into consideration the increase in minimum costs of living, the total income of a household eligible for EITC and the maximum benefit amount increase, while the amount is differentiated according to the number of dependent family members (Figure 5.1).



**Figure 5.1 EITC structure according to number of children and earned income**

## 5.2 Towards an employment-oriented welfare system

The Korean government has transformed its self-support programmes to a system in which more welfare can be attained through labour. The self-support programmes extend a subsistence allowance to beneficiaries that are capable of working, under the condition that they participate in activities to help themselves stand on their own feet, such as social adaptation programmes, self-support activities, vocational training or business start-up programmes. The goal is to enhance the self-supporting capabilities of the poor and to help them escape poverty through participation in well-structured self-support services and programmes. This new system has been in place since 2000.

However, due to poor management of beneficiaries that are capable of work and a lack of detailed supporting programmes, low success rates in attainment of self-sustenance have been recorded. Moreover, the system of “National Basic Livelihood Security” uses the method of paying out a complementary subsistence allowance, which is the amount calculated by deducting the beneficiary’s income from the minimum cost of living. When the beneficiary’s income exceeds the minimum cost of living, all allowance payments are withdrawn, resulting in failure of the beneficiary to become self-reliant. In order to overcome such problems in the self-support programmes and increase the success rates, the Korean government has been strengthening the linkage between Job Centers and local government offices, expanding self-support promotion programmes, and adopting a “special allowance system.”

### 5.2.1 Strengthened connection among local centres

By strengthening the ties between Job Centers and local government offices, more beneficiaries of self-support promotion programmes that are capable of work can participate in the “Employment Success Package programme.” To achieve this goal, (1) local government offices identify beneficiaries that are capable of work and have

increased the number of vocational counsellors from 48 counsellors in 2011 to 100 counsellors in 2012. (2) In addition, Job Centers and local government offices share the list of low income households in order to strengthen the function of identifying beneficiaries that are capable of work. The number of participants in the “Employment Success Package programme” has also increased continuously.

### 5.2.2 Self-Support Promotion Programmes<sup>25</sup>

Programmes to promote self-support abilities have been expanded, and include the following:

- **Hope Ribbon Programme:** It provides employment assistance to participants through one-on-one, customized counselling, education and training for one to twelve months. To improve participants’ working conditions and motivation to work, social services such as childcare, nursing and medical treatment are provided.
- **Growing Hope Saving programme:** Working households with beneficiaries of basic livelihood support may participate in the “Growing Hope Savings” programme if the total working or business income of the household is more than 60 per cent of the minimum costs of living. If the household ceases to be a beneficiary within three years, it may hold assets amounting up to seven times the original amount of personal savings through government and private matching funds.

### 5.2.3 Special Allowance System

Due to the system of “National Basic Livelihood Security” through which a complementary subsistence allowance is paid, when the income of the beneficiary exceeds the minimum costs of living, all allowance payments are withdrawn, and it has been noted that this results in the beneficiary’s failure to seek self-support. In order to overcome this problem, for those whose income is less than 150 per cent of the minimum costs of living, a “special allowance system” has been adopted in which an allowance for medical fees and education is paid for a period of two years even after the household’s income exceeds the minimum costs of living.

## 5.3 Development of new job-growth engines

### 5.3.1 Green jobs

The Korean government has decided to focus on the development of the green industries as a driver of future economic growth and means of job creation. From 2009 to 2012, approximately KRW 50 trillion shall be invested in the creation of

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<sup>25</sup> Among welfare recipients, people who are more capable of working are expected to participate in Employment Success Package Programme (see p.23) while others are encouraged to join in these self-support promotion programmes.

approximately 900,000 jobs in the green industries, which include areas such as clean energy (solar/wind energy), recycling of waste resources and subsequent conversion into energy, and building of energy saving homes and offices. In accordance with such a policy direction, MOEL has implemented the Green Job Creation Programme, with the purpose of strengthening the connection between green growth and job creation, expanding vocational development capabilities for the nurturing of qualified workers in green industries, and providing assistance for improvement in work environments and industry structure.

First, an infrastructure for creation of green jobs was formed:

- MOEL and the Ministry of Environment established an MOU and agreed to cooperate for the promotion and support of social enterprises in the environment sector. Subsequently, green social enterprises were actively encouraged in order to promote the creation of green jobs. As of April 2012, 110 green social enterprises are engaged in business activities.
- An employment impact assessment has been conducted on the major green growth policies, such as the four major rivers restoration project and the development and usage of renewable energy technology.
- The green sector has been included in the outlook on labour demand and supply to implement projections on labour demand and supply in the green industry.
- A study has been conducted on the structure and nature of green jobs, which is at the core of collection and accumulation of information regarding green jobs. This was completed in 2010.
- In 2010, a Green Job Fair was held.

Secondly, plans were developed for vocational capability development for green talents:

- Fifteen types of occupations in the green and knowledge services and ten in green technology integration were selected as national strategic areas of work. Departments in polytechnic universities have been restructured, enabling the development of green intermediate technology.
- Through a “green skill alliance,” a consortium for human resources development in the green industry, training on specialized green technology is being provided in areas including renewable energy, LED, intelligent power networks, and eco-friendly construction.
- New national technology qualification systems have been established regarding the green industry.

### 5.3.2 Third sector

Korea is aiming for the creation of jobs through the development of the third sector, which is the intermediate area, neither public nor private.

#### *Social Enterprise*

Since the 2000s, detailed discussions on the fostering of social enterprises through the third sector development have been conducted, as social enterprises are viewed as a model that could create profit and encourage self-sustenance – a solution for the problem of low job growth and increase in demand for social services. Subsequently, in 2007, Korea institutionalized a system of social enterprises, and enacted the “Social Enterprise Promotion Act” to facilitate its growth (see Table 5.1).

Through cooperation among related ministries, the Korean government has actively sought areas in which social enterprises could be developed, such as the environment, agriculture, and local industries. In addition, as of 2011 132 municipalities have enacted guidelines for the promotion of social enterprises by working together with local governments. Moreover, a practice has been adopted for selection of “preliminary social enterprises” by region - each local government designates and extends support to social enterprises that satisfy the needs and unique characteristics of the region.

Other efforts include network building, assistance for costs of professionals, provision of management consultation, and other various initiatives to help social enterprises gain self-dependence. In 2011, the “Korea Social Enterprise Promotion Agency” was established to develop social enterprises through various projects, including the identification and advertisement of success models, provision of customized consultation, and assistance for certification of social enterprises.

**Table 5.1 Legislation in Korea to promote the third sector**

	Description	Relevance to job creation
<b>Act on Promotion of Social Enterprises</b>	<ul style="list-style-type: none"> <li>- Certification of social enterprises</li> <li>- Assistance to social enterprises regarding taxes, social insurance, finance</li> </ul>	<ul style="list-style-type: none"> <li>- Increased possibility of creating new jobs in the social services sector*</li> <li>- Provision of social services or ongoing jobs to underprivileged classes</li> </ul>
<b>Basic Act on Cooperatives</b>	<ul style="list-style-type: none"> <li>- Expanded definition and eased conditions for establishment of cooperatives</li> <li>- Selective exemption from fair trade law</li> </ul>	<ul style="list-style-type: none"> <li>- Development of vocational abilities of underprivileged classes that face difficulty in labour market entry</li> <li>- Function as an organization that provides training through direct production activities, as well as an intermediary workplace</li> </ul>

\*“Social services sector” refers to industries that provide services in education, welfare, society, health, environment, culture, and other related areas.

### *Cooperatives*

As a means of promoting the third sector, in 2012 the Korean government enacted the “Basic Act on Cooperatives” for the purpose of encouraging the growth of non-profit social cooperatives that carry out projects dealing with the improvement of rights, interests and welfare of local citizens and provide social services or jobs to underprivileged classes (see Table 5.1). Rather than sprouting out voluntarily out of necessity, the existing cooperatives in Korea, were used as supplementary organizations that carried out governmental policy. Up to 3,000 cooperatives existed, performing roles for the public interest, such as self-supporting and care services. The Basic Act on Cooperatives was enacted due to the realization that such organizations should be developed more systematically.

### 5.3.3 Job creation through working hour reduction

Korea introduced the 40-hour work-week system in 2004. Since July 2011, the 40 hour workweek has been applied to all businesses with more than five members. However, despite the fact that the reduction of legal working hours has been finalized, overtime work, work on holidays and low usage of vacations have led to a total of 2,111 hours of actual annual working hours for paid workers as of 2010. This is one of the longest annual working hours among countries with reliable statistics. Labour, management and government in Korea formed a consensus on the negative impact long working hours has on jobs. From this perspective, in 2010 the tripartite committee agreed that labour, management and government would work together to cut the total of annual working hours to 1,800 hours by 2020. As a result, in December 2010, the Korean government established a “Comprehensive Plan to Reduce Extended Working Hours,” which was put into action from 2011. The major tenets are as follows:

- Regional Employment and Labor Offices shall establish a “mobile team for supervision of working hours” to strengthen supervision of working hours in companies with extended working hours.
- Free consultations shall be provided to SMEs that wish to improve extended hour labour conditions through re-organization of the shift system, encouraged use of vacations and flexible working hours.
- Increased assistance for labour costs which is closely connected with aforementioned consultation services shall be provided to companies that acquire new employees through re-organization of their shift system and reduction of work hours.

If the working hours are reduced, new employment can be created for maintaining the same level of production. In addition, reduction of working hours may lead to increase use of vacations and holidays as a means of creating jobs in the service industry<sup>26</sup> and promotion of domestic demand. The Korean government has also pursued the creation

<sup>26</sup> The manufacturing industry strives for development through the gradual adoption of labour-saving production technology for the purpose of strengthening competitiveness. In contrast, the service industry has a high rate of dependence on labour, which cannot be replaced by machines or technology. Consequently, the role of the service industry in the labour market going forward will be considerable. The employment creation index of Korea’s service industry is 20.4 persons, which is twice that of the manufacturing industry (11.5 persons) (Industry Statistics, Bank of Korea, 2009).

of decent jobs through the development of the service industry based on the judgment that the service industry has high job creation potential.

## CONCLUDING REMARKS

# 6

The economic crisis in 2008 was global in nature, starting in the United States and spreading throughout the whole world whereas the Asian financial crisis in 1997 was limited to the East Asian region. Thus, most of the countries around the world had suffered serious economic downturn and employment recession. Although they had passed the most difficult period many countries have still experienced low economic growth, the lack of jobs and great deal of budget deficit. Thus, it is necessary for the ILO to build up and share knowledge on various effective policy options to cope with these challenges.

This report analysed how Korea has developed its own employment policies during the process of coping with the two economic crises that heavily impacted the Korean economy in 1997 and 2008. There are four important findings. First, the Korean government has established labour market institutions and enhanced its infrastructure and programmes to meet labour market needs. Secondly, the Korean government has sought to place jobs at the center of the national policies. It has introduced initiatives to increase job creation in taxation, government budget, welfare and industrial policies. Thirdly, the government has formulated national governance to coordinate employment policies and established policy monitoring and evaluation system. Lastly, the government has held social dialogue for developing national policies and measures to cope with the crises.

A caveat is in order. As noted in the executive summary, most of the initiatives that have been described here are of rather recent origin. Their effective implementation and their impact on the labour market will unfold over time. Hence, a natural complement to this study would be an in-depth evaluation of the effectiveness of the entire range of policies that pertain to job creation (both in terms of quantity and quality) and the extent to which the government has been able to strike the right balance between promoting employment opportunities and protecting workers from the vagaries of economic volatility.

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## APPENDIX A

### GDP growth by main components

	1995	1996	1997	1998	1999	2000	2001
<b>Final Consumption Expenditure</b>	9.1	7.3	3.7	-9.9	10.1	7.8	5.5
Private	10.3	7.3	4.0	-12.5	11.9	9.2	5.7
Government	3.8	7.3	2.7	2.2	3.0	1.8	5.0
<b>Gross Fixed Capital Formation</b>	13.4	8.2	-1.5	-22.0	8.7	12.3	0.3
Construction	9.6	7.2	2.4	-12.9	-3.8	-0.2	6.3
Facilities Investment	18.9	9.1	-8.4	-40.6	37.5	32.9	-8.3
Intangible Fixed Assets	21.4	16.1	5.9	-0.3	19.7	21.3	6.4
<b>Export of Goods and Services</b>	24.7	11.6	19.8	12.9	14.4	18.1	-3.4
Goods	24.6	10.1	20.1	14.7	17.4	20.3	-4.2
<b>Import of Goods and Services</b>	22.5	14.7	4.2	-22.0	26.4	22.6	-4.9
Goods	21.0	13.8	3.2	-24.4	31.2	23.9	-6.3

	2005	2006	2007	2008	2009	2010	2011
<b>Final Consumption Expenditure</b>	4.6	5.1	5.1	2.0	1.2	3.9	2.3
Private	4.6	4.7	5.1	1.3	0.0	4.1	2.2
Government	4.3	6.6	5.4	4.3	5.6	3.0	2.3
<b>Gross Fixed Capital Formation</b>	1.9	3.4	4.2	-1.9	-1.0	7.0	-2.1
Construction	-0.4	0.5	1.4	-2.8	3.4	-1.4	-6.5
Facilities Investment	5.3	8.2	9.3	-1.0	-9.8	25.0	3.8
Intangible Fixed Assets	8.0	8.0	5.6	2.0	1.7	1.2	7.7
<b>Export of Goods and Services</b>	7.8	11.4	12.6	6.6	-1.2	14.5	10.0
Goods	9.4	12.9	11.9	4.6	-0.2	15.8	11.1
<b>Import of Goods and Services</b>	7.6	11.3	11.7	4.4	-8.0	16.9	6.6
Goods	7.3	11.5	10.9	4.5	-7.8	18.2	8.8

Source: Bank of Korea, Economic Statistics System.



## APPENDIX B

### Employment status of non-regular workers<sup>27</sup> in Korea

Most non-regular workers have a prescribed employment period on contract, and even in cases when they do not, they are unable to work continuously due to project termination, reinstatement of previous employees, and seasonal working cycles; such short employment periods makes it impossible to expect job stability. In 2011, the average employment period for regular workers was six years and seven months, while for non-regular workers it was two years and three months – regular workers had an employment period that was three times as long as that of non-regular workers. Among regular workers, 24.9% had an employment period of less than one year, while 21.3% had an employment period of one to three years; 53.8% had an employment period of more than three years. Thus, at least half had an employment period of more than three years. In contrast, jobs for non-regular workers were unstable, with 57.1% having an employment period of less than one year; 21.1% having an employment period of one to three years; 21.8% having an employment period of more than three years – at least half had an employment period of less than one year.

The relatively poor working conditions of non-regular workers are revealed not only in the employment period, but in wage levels as well. The average wage of regular workers in 2011 was KRW 2.39 million, but the average wage of non-regular workers was a lower KRW 1.35 million. This does not take into account differences in workers' job experience, education and employment period, and when an analysis is made by controlling personal qualifications and labour market conditions, the hourly wage gap between regular and non-regular workers was measured as 9.1% in 2011. This is the wage gap between workers that perform the same tasks and have the same personal qualifications, and show that non-regular workers have lower wages than regular workers.

Non-regular workers have vulnerable working conditions compared to regular workers, such as low wages and short employment period. They are also excluded from social insurance and benefits. About 80% of regular workers received benefits such as severance pay or bonus, while only about 40% of non-regular workers did in 2011. Non-regular workers' ownership of social insurance benefits is also considerably less than that of regular workers, at a rate of less than 50% for national pension, health insurance and employment insurance. Such low levels in the receipt of occupational welfare benefits are due to the difficulty of part-time workers in receiving such benefits. Only 9.5% of part-time workers received severance pay. As they receive wages based on the number of working hours, those that received overtime allowance was only 6.4% in 2011. The low share of non-regular workers that are subject to social insurance benefits can be attributed to the low percentage of atypical workers as well as part-time workers that receive such benefits.

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<sup>27</sup> In Korea, the government defines non-regular workers to include following; fixed term, part-time, and atypical workers (dispatched workers, subcontracted workers, independent self-employed workers, domestic and daily workers, etc).

For example, among non-regular workers, 62.7% of fixed term workers received employment insurance, while 13.5% of part-time workers did, and 28% of atypical workers did in 2011. Due to job instability, non-regular workers are actually in more need of employment insurance than regular workers. Despite this, their low rate of employment insurance ownership leads to a low level of insurance benefit acceptance, and are relatively more vulnerable to potential unemployment.

**Table B.1 Beneficiaries of vocational welfares and social insurance, 2011 (%)**

	Severance pay	Bonus	Overtime allowance	Paid leave	National pension	Health insurance	Employment insurance
Regular workers	78.4	80.4	55.0	69.2	79.1	80.9	77.4
Non- regular workers	38.4	35.5	22.0	30.5	38.2	44.1	42.3

*Source:* Statistics Korea, Supplementary Results of the Economically Active Population Survey.

As non-regular workers form the vulnerable classes in the labour market due to low wages and job instability, the Ministry of Employment and Labor has taken action to rectify the discrimination and abuse of non-regular workers, through improved job stability of non-regular workers with the Act for Protection of Part-time and Temporary Workers, and Act for Protection of Workers Dispatched by Agents. These Acts restrict the retainment period of fixed-term and agency workers to two years, and prohibit discrimination of those workers. In the case when a business retains a temporary worker for more than two years, the worker is then regarded as a regular worker with a permanent contract.

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